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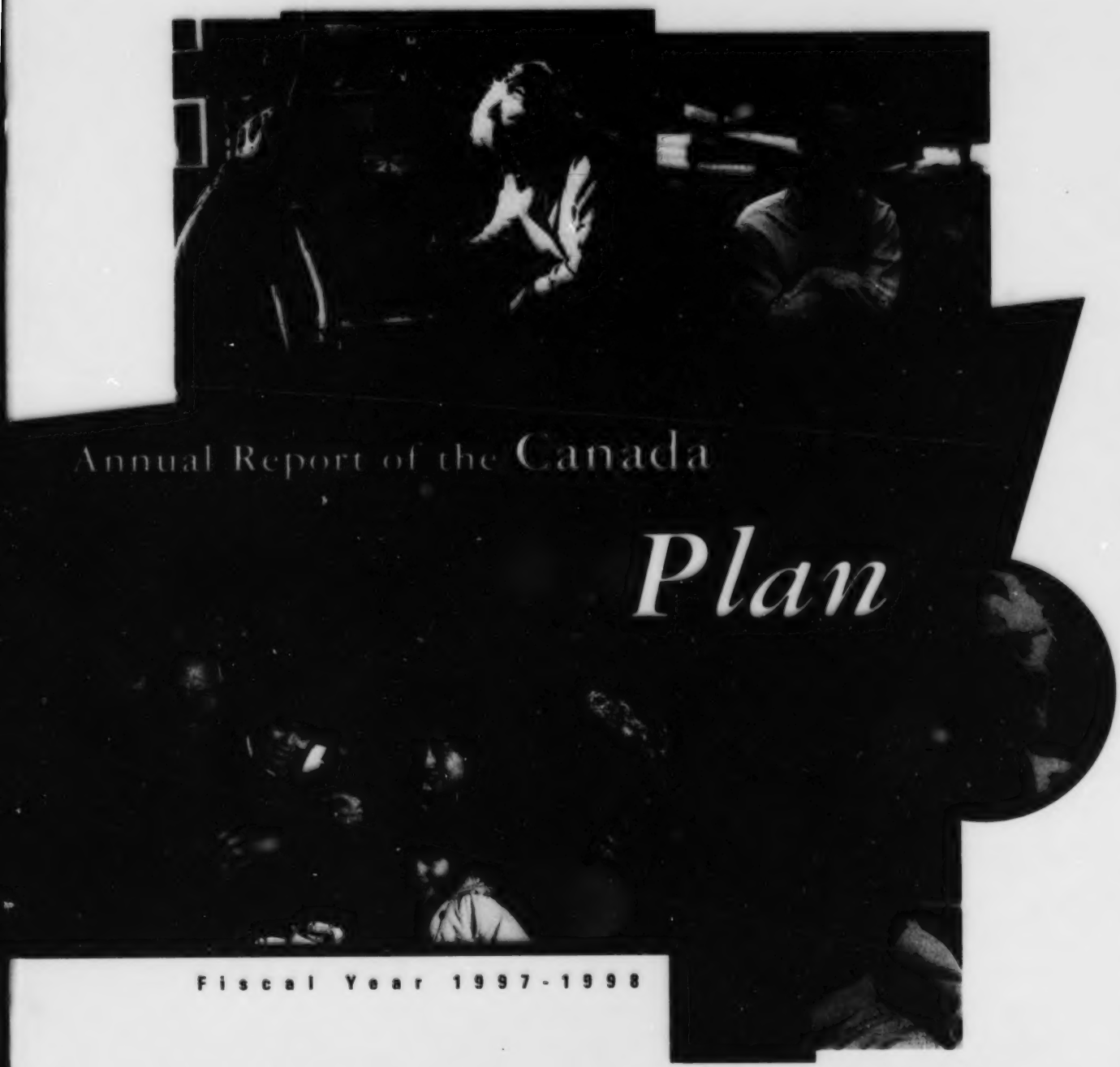

Annual Report of the Canada Plan

Fiscal Year 1997-1998

Canada

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Aussi disponible en français sous le titre
Rapport annuel du Régime de pensions du Canada 1997-1998

For information about the Canada Pension Plan, please call free of charge:

1-800-277-9914 (English)
1-800-277-9915 (French)
1-800-255-4786 (for calls using a TTD/TTY device)

100-04971/

Government of Canada
Gouvernement du Canada
Ottawa, Canada K1A 0J9

His Excellency
The Govenor General of Canada

May it please your Excellency:

We have the pleasure to submit the Annual Report of the Canada Pension Plan for the fiscal year 1997-1998.

Respectfully submitted,

Paul Martin

Pierre S. Pettigrew

Canada

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This Report on the Canada Pension Plan (CPP) consolidates input from all departments providing services on behalf of the Plan.

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About the Canada Pension Plan

A Measure of Income Protection

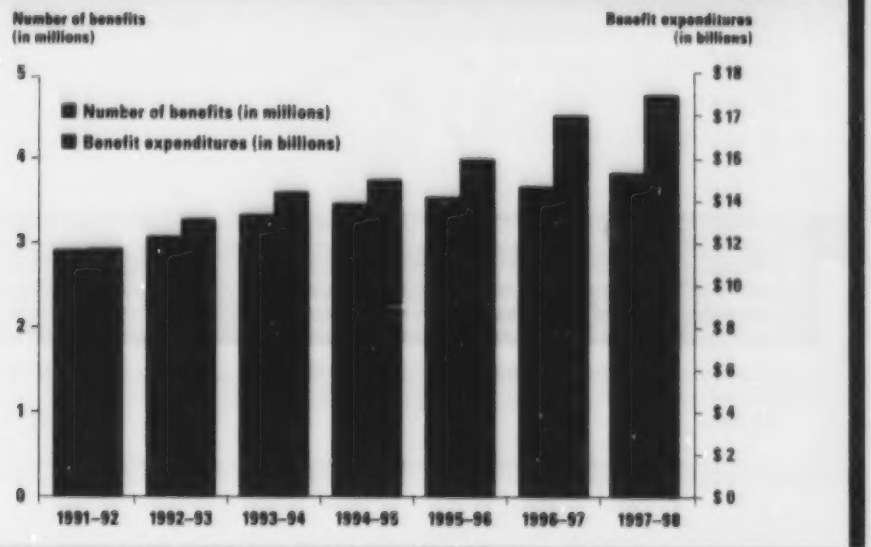
The Canada Pension Plan (CPP), which began in 1966, provides benefits to contributors and their families. The CPP covers employed and self-employed persons between the ages of 18 and 70 who have a minimum level of earnings in a calendar year. The Plan operates in every province and territory, except Quebec, which operates a similar pension program, the Quebec Pension Plan. The benefits and provisions under the Plan include retirement pensions, disability, survivor and death benefits, and services under the CPP national vocational rehabilitation program. Benefits are increased each year in January to reflect increases in the average cost of living, as measured by the Consumer Price Index.

The CPP is self-supporting and is a separate fund from general revenue in the Accounts of Canada. It is financed through mandatory contributions from employees, employers and self-employed persons, as well as through earnings on the investments of the Canada Pension Plan Investment Fund. Changes to the legislation governing the general level of benefits, the rate of contributions, or the investment policy require an Act of Parliament and the agreement of at least two-thirds of the provinces having not less than two-thirds of the population. In addition, changes of this kind require two years notice before coming into force unless such notice is waived by the provinces.

Benefits

Over 3.3 million people received 3.7 million benefits totalling approximately $17.5 billion during the fiscal year 1997-98.

Table 1 Benefits and Expenditures by Fiscal Year



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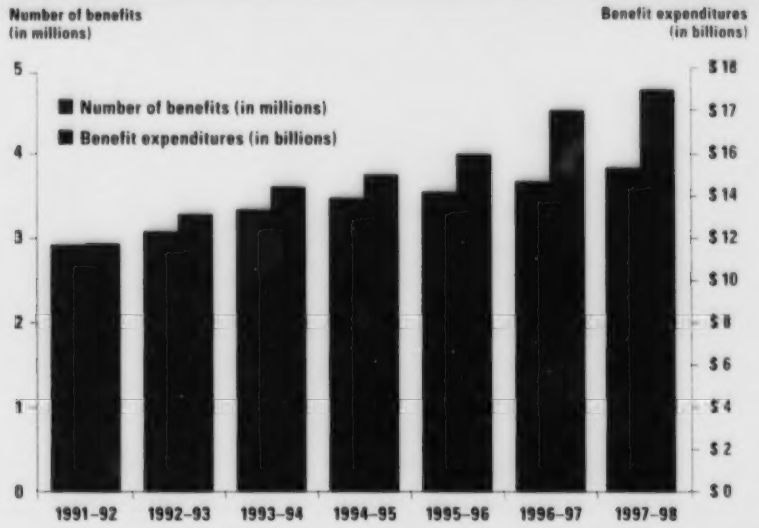

Contributions

Contributions to the Plan are compulsory and are based on employee earnings exceeding the Year's Basic Exemption (YBE) up to a ceiling known as the Year's Maximum Pensionable Earnings (YMPE). The YMPE is linked to the average Canadian wage and is adjusted annually. The YBE remained at $3,500 in 1997 and in 1998; the YMPE increased from $35,800 to $36,900 in the same period. Contributions cannot be made after age 70, after a contributor begins to receive a CPP retirement pension, or while an individual is receiving a CPP disability benefit.

Table 2 — Amount of YMPE and YBE

	YMPE	YBE
1997	$35,800	$3,500
1998	$36,900	$3,500
1999	$37,400	$3,500

From 1966 to 1986, the contribution rate was 1.8 percent each for employees and employers with the self-employed paying 3.6 percent of their earnings subject to the yearly maximum amounts. The contribution rate began to increase in 1987 with a combined employee-employer increase of 0.2 percent for 1987 to 1991 and again for 1992 to 1996. The current rates in 1998 are 3.2 percent for employees, 3.2 percent for employers with the self-employed paying 6.4 percent.

Contributors paid about $12.8 billion into the Plan during 1997-98. Total investment earnings on CPP assets are $ 3.95 B. As of March 31, 1998, the Canada Pension Plan Account held approximately $36.7 billion. Contributions are collected by Revenue Canada on behalf of the CPP.

Retirement Pension

Eligibility

- Following the contributor's 60th birthday
- If under age 65, the month after the contributor has completely or substantially stopped working

Benefit Rates

- Based on the individual's contributions paid into the Plan
- Benefits actuarially adjusted by 0.5 percent for each month the contributor is over or under 65 at the commencement of the pension (This adjustment is made to reflect a longer or shorter period of time that a person receives their retirement pension)

Table 3 — Maximum and Average Retirement Pension Amounts Payable

Age benefit begins	Maximum amount payable 1997	Maximum amount payable 1998	Maximum amount payable 1999	Average amount paid March 1997	Average amount paid March 1998
Age 65	$736.81	$744.79	$751.67	$417.79	$417.66
All ages				$400.21	$408.55

• Maximum adjustment is 30 percent

Retirement Pension – Facts and Figures

Retirement pensions represent 66 percent of the volume of total benefits processed and 67 percent of the dollar benefit amount paid out by the CPP.

Table 5 illustrates that the percentage of new retirement beneficiaries choosing to receive their benefits before age 65 has increased over the last few years and stands at 63 percent for 1997.

Assignment of Retirement Pensions

In certain circumstances, spouses in a continuing marriage or common-law relationship can receive an equal share of the retirement pension earned by both parties during their life together. Both must be at least 60 and have applied for their retirement pensions.

Table 4 Number of Retirement Pensions and Annual Expenditures

Year ending March 31	Number of benefits (in thousands)	Number of new benefits	Benefit expenditures (in millions)
1993–94	2,141	176,308	$9,322
1994–95	2,231	178,094	$9,912
1995–96	2,321	180,998	$10,531
1996–97	2,404	175,706	$11,179
1997–98	2,489	181,009	$11,827

Table 5 New Retirement Beneficiaries Electing Early Benefits (as a percentage of new beneficiaries)

Year	Age 60	Age 61–64	Total <65	At age 65	>65
1992	31	29	60	35	5
1993	32	29	61	34	5
1994	34	29	63	32	5
1995	35	26	61	34	5
1996	37	26	63	32	5
1997	38	25	63	32	5

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1995	35	26	61	34	5
1996	37	26	63	32	5
1997	38	25	63	32	5

Percentage of New Retirement Beneficiaries in 1998 by Age Groups

Age	
60	40.2%
61-64	23.2%
Total <65	63.4%
65	31.4%
>65	5.2%

Disability Benefits

Eligibility

Disability

- To qualify contributors must
  - be disabled according to CPP legislation and
  - be between the ages of 18 and 65 and
  - meet minimum contributory requirements

Children's

- Paid on behalf of the dependent children of the disabled beneficiary if
  - children are less than age 18 or
  - between 18 and 25 and in full-time attendance at school or university

Benefit Rates

Disability

- Consists of a flat-rate amount and an amount based on the level of contributions of the applicant
- At age 65, a disability benefit is automatically converted to a retirement pension

Children's

- Flat-rate monthly benefit paid on behalf of the dependent children of the disabled contributor
- Children may receive a maximum of two child's benefits

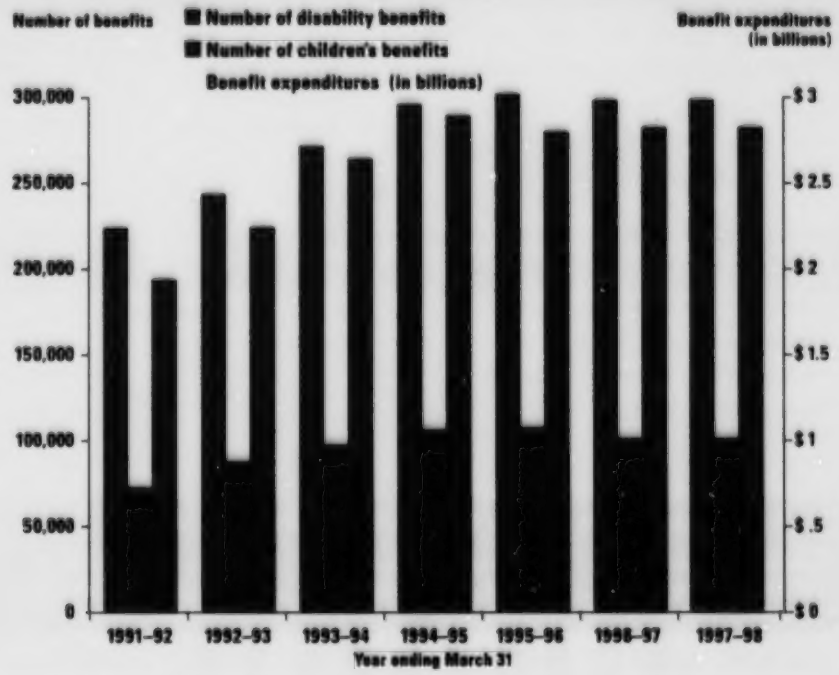
A contributor is considered disabled under the CPP when the physical or mental condition is both severe and prolonged. "Severe" means that the person is prevented from working regularly at any job. "Prolonged" means that the condition is long term or may result in death.

The maximum and average amounts payable for 1997 and 1998 are presented in Table 7.

Maximum and Average Disability Benefit Amounts Payable

Type of disability benefit	Maximum amount payable 1997	Maximum amount payable 1998	Maximum amount payable 1999	Average amount paid 1997	Average amount paid 1998
Disability	$883.10	$895.36	$903.55	$664.16	$674.53
Children's (flat-rate)	$166.63	$169.80	$171.33	–	–

Disability Benefits Volume and Expenditures



Disability Benefits – Facts and Figures

Disability benefits represent 11 percent of the volume of total benefits processed and 16 percent of the dollar benefit amount paid out by the CPP.

Survivor Benefits

Eligibility

Survivor

- The deceased must have made a minimum amount of contributions to the CPP
- The common-law or legal spouse of the deceased contributor may be eligible for a survivor pension
- In determining eligibility and the rate of payment, factors considered are
  - age of the surviving spouse
  - whether or not the spouse is disabled
  - whether or not the spouse has dependent children of the deceased contributor

Children of deceased contributor

- The natural, adopted, or child in the care and control of the deceased contributor, at the time of death, may be eligible for the children's benefit if
  - less than age 18 or
  - between 18 and 25 and in full-time attendance at school or university

Death

- Paid to the deceased contributor's estate or the person responsible for the funeral expenses

Table 6 - Percentage of New Retirement Beneficiaries in 1998 by Age Groups

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60	40.2%
61-64	23.2%
Total <65	63.4%
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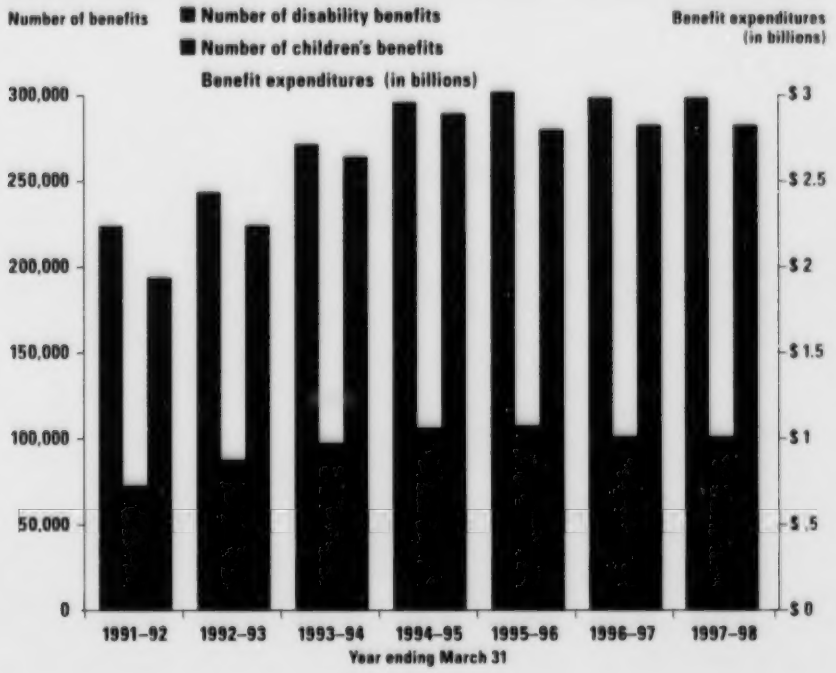

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Death

- Paid to the deceased contributor's estate or the person responsible for the funeral expenses

Benefit Rates

Survivor

- Only one survivor's pension payable to the surviving spouse
- If widowed more than once, the larger of the entitlements is paid

Children of deceased contributor

- Flat-rate monthly benefit paid to the dependent children of the deceased contributor
- Children may receive a maximum of two child's benefits.

Death

- Lump-sum payment equal to six months' worth of the deceased contributor's "calculated" retirement pension, up to a set maximum for the year of death
- As of January 1, 1998 the maximum death benefit is equal to $2,500.

Table 9 Maximum and Average Survivor Benefit Amounts Payable

Type of Survivor benefit	Maximum amount payable 1997	Maximum amount payable 1998	Maximum amount payable 1999	Average amount paid March 1997	Average amount paid March 1998
Spouse <65	$405.25	$410.70	$414.46	$300.00	$305.85
Spouse >65	$442.09	$446.87	$451.00	$229.40	$236.16
Children (flat rate)	$166.63	$169.80	$171.33	–	–
Death	$3,580.00	$2,500.00	$2,500.00	$2,611.45	$2,353.62

Survivor and Children's Benefits – Facts and Figures

Survivor benefits represent 23 percent of the volume of total benefits processed and 17 percent of the dollar benefit amount paid out by the CPP.

Death Benefits – Facts and Figures

Death benefits represent less than one percent of the volume of total benefits processed and of the dollar benefit amount paid out by the CPP.

Table 10 Survivor and Children's Benefits Volume and Expenditures

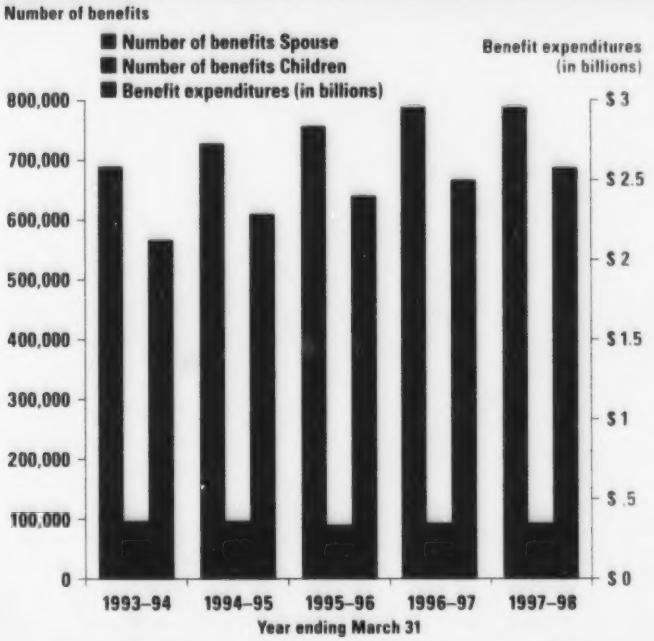
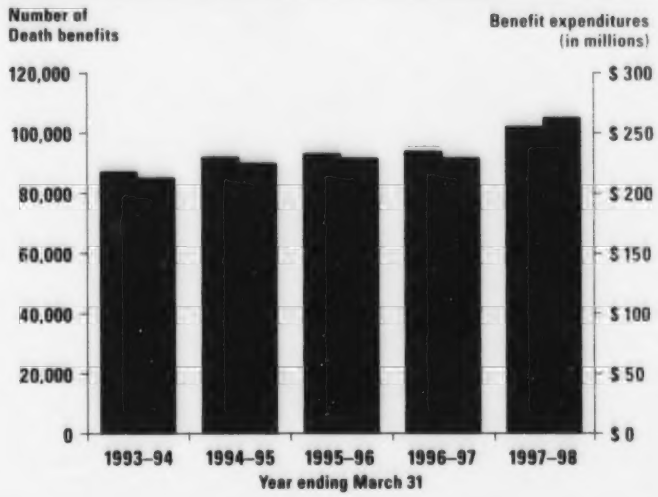


Table 11 Death Benefits Volume and Expenditures



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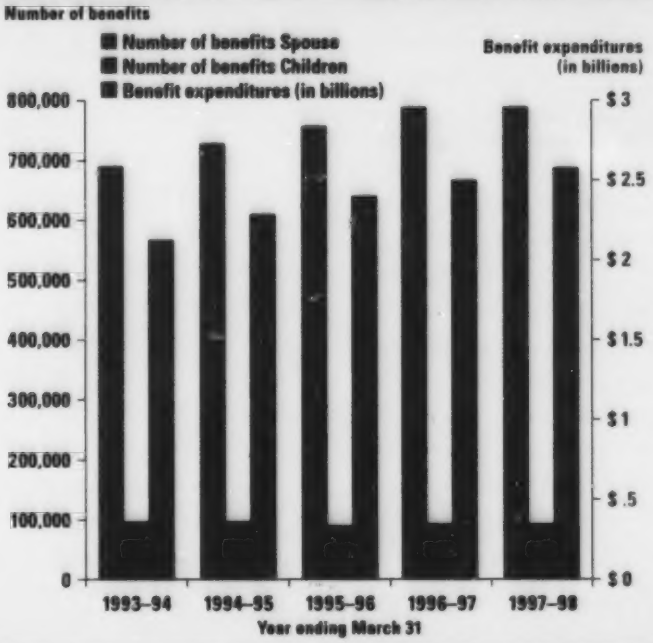

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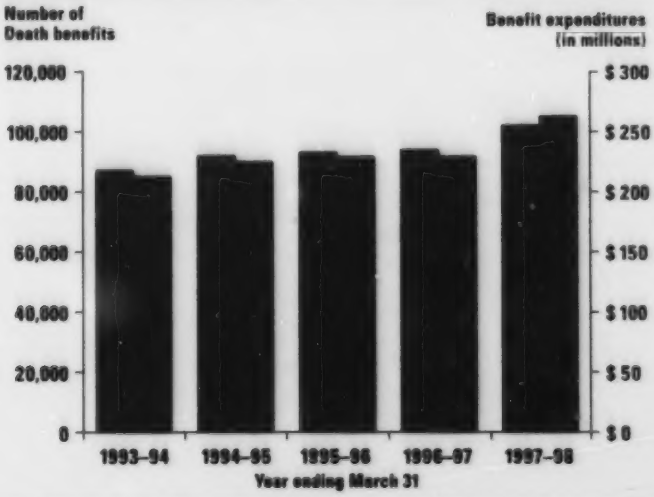

Departmental Responsibilities

Human Resources Development Canada

- provides clients with information about CPP
- determines eligibility for benefits
- maintains records and accounts with supporting systems
- provides contributors with information on their earnings, contributions and projected benefits
- manages an appeals process which includes support to the Review Tribunal and Pension Appeals Board
- assigns Social Insurance Numbers to individuals and maintains a Social Insurance Register of those names and numbers
- negotiates and administers International Social Security Agreements
- detects overpayments and manages accounts receivable

Revenue Canada

- administers Part I of the CPP, which provides for the collection of contributions from employees, employers and the self-employed
- provides rulings regarding CPP coverage and contribution requirements
- provides contributor information to the CPP
- reconciles T-4s and investigates any discrepancies
- maintains records for remittances, assessments and deposits funds
- manages an appeals process on contribution related matters
- provides system and administrative support

Public Works and Government Services Canada

- issues payments to CPP clients
- develops, maintains and operates supporting information systems to process information on contributor earnings, benefit payments, and program statistics
- provides accommodation and property management

Department of Finance

- responsible for leading negotiations with the provinces and all other aspects of the statutory review of the CPP, which result in major changes to the Plan, including contribution rates
- manages the CPP Investment Fund by investing monies not immediately needed to pay benefits in securities of provincial and territorial governments, provincial Crown agencies, or the Government of Canada, in accordance with the provisions of the CPP
- after April 1998, funds not immediately needed to pay for benefits will be managed by the CPP Investment Board

Office of the Superintendent of Financial Institutions

The Chief Actuary

- prepares the actuarial reports for tabling by the Minister of Finance in Parliament on the projected financial status of the CPP Account every three years in accordance with the CPP legislation

- prepares actuarial estimates on proposed changes to the Plan's provisions for HRDC, the Department of Finance, and provincial governments
- calculates the effects on the CPP Account of proposed amendments to the CPP once a Bill has been introduced, in accordance with a request received from the Minister of Finance

Special Initiatives

Changes to the CPP

In December 1997, Bill C-2 received Royal Assent. This bill was designed to ensure the sustainability of the CPP.

The legislative changes were implemented with minimal effect on client services. Computer systems and processes were changed as required. Staff was trained and provided with the necessary information and tools to process the changes and to inform clients of these changes.

The changes enacted in Bill C-2 are the result of the latest statutory review of the CPP that the federal and provincial governments, as joint stewards of the plan, began in 1995. Contribution rate and benefit changes came into effect January 1, 1998 (contribution rates were increased retroactive to January, 1997), and new investment policy provisions were proclaimed April 1, 1998.

The new legislation reflects what Canadians said during extensive public consultations held across Canada in 1996 where the key recurring theme was that Canadians believe in the CPP and want it preserved. Most participants agreed that sustainability could be achieved by strengthening the Plan's financing, improving its investment practices, and moderating the growth in costs.

A Balanced Approach

In 1997, the legislated CPP contribution rate – shared between employees and employers – was 5.85 percent. (Contributions were levied on earnings between $3,500 and $35,800.) Under the then existing legislated schedule, rates were to rise to 10.1 percent by 2016. However, the Chief Actuary of the CPP indicated that, without changes, the CPP fund would be depleted by 2015 and contribution rates would have to increase to 14.2 percent by 2030 to cover escalating costs. Clearly, the CPP was not sustainable without some changes.

Federal and provincial ministers agreed on a three-part approach to restore the financial sustainability of the CPP and make it fairer and affordable for future generations by:

- moving to fuller funding by accelerating contribution rate increases now so that they should not have to exceed 10 percent for future generations;
- improving the rate of return on the CPP fund by investing it prudently in a diversified portfolio of securities at arm's length from governments; and
- slowing the growth in costs by tightening the administration of benefits and changing the way some are calculated.

Together, these changes will bring the contribution rate that will have to be charged in 2030, down from 14.2 percent to 9.9 percent. (See Table 12)

About three-quarters of the effort to get the contribution rate down to 9.9 percent was from contribution increases and about one quarter from changes to benefits.

When the CPP was introduced in 1966, it was financed on a partially funded basis. At that time, the prospects of rapid growth in real wages and labour force participation and low real interest rates favoured a low level of pre-funding and heavy reliance on pay-as-you-go financing. The current environment of slow growth in real wages and labour force participation, and high real interest rates favour a higher level of pre-funding. Under the new funding approach, the fund is expected to increase from about 8 percent of the total liabilities of the plan today to about 20 percent in 20 years.

Building up a larger fund – fuller funding – and earning a higher rate of return through investment in the market will help pay for the rapidly growing costs that will occur once baby boomers begin to retire. Accordingly, the CPP will move from pay-as-you-go financing to fuller funding to build a substantially larger reserve fund. The fund will grow in value from about two years of benefits currently, to about four or five years of benefits.

Pension obligations to contributions incurred up to now must be honoured. The 9.9 percent "steady-state" rate reached in 2003 will mean that future generations of contributors (together with their employers) will pay 6.1 percent towards their own benefits, and 3.8 percent toward past commitments. Building up the fund before the baby boomers begin to retire through the steady-state rate will ensure that the burden of the liability of past commitments is shared fairly by current and future generations.

Annual expenditures on benefits are projected to be 9 percent lower by 2030 than they would have been without the changes made by Bill C-2. A number of these changes came into effect January 1, 1998, including stricter eligibility for disability benefits, improvements in administration, and reduction in the maximum payment for the death benefit.

Improvements to Client Service

In late 1997-98, many improvements to meet service commitments were introduced. These included directing overflow call volumes to staff at mail processing centres, increasing staffing, encouraging clients to call during non-peak periods, and installing additional equipment. Interactive voice response services were expanded in all major telephone centres. Emphasis has been put on reporting, quality, performance and increased use of part-time staff.

Income Security Programs (ISP) Redesign

Managing ISP redesign has been the focus of HRDC in recent years. It was a significant part of HRDC's efforts to continuously improve service to clients. ISP redesign produced numerous service delivery improvements and efficiency gains through modernization of systems and older technology. These improvements included the introduction of an interactive voice response telephone service, presumptive applications to potential clients in advance of their eligibility, installation of new equipment, and training of staff. The system

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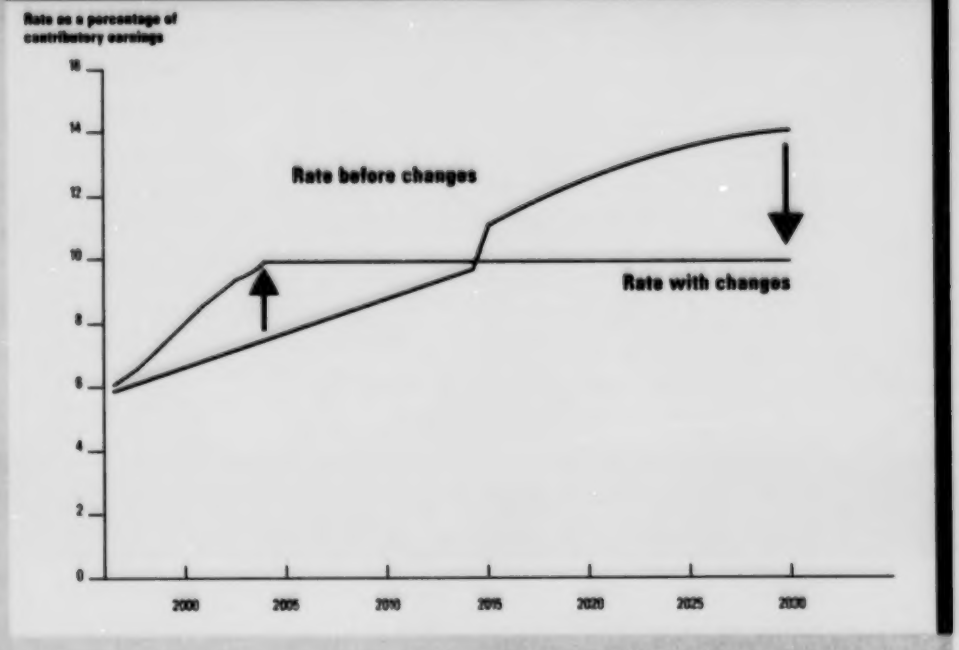
for CPP business was to be delivered by July 2000. An independent third-party report stressed the danger of this implementation date given the challenges presented by the year 2000 impact on systems. As a result of this risk assessment, the decision to stop further development was made in late 1997. Instead, the current Legacy System will be modified to support changes in the CPP legislation using a number of redesign products and will be year 2000 compliant.

The Technology Solutions Directorate was created in late 1997-98. This group began to develop a strategy to ensure the continuing effective delivery of benefits and to identify possible new business strategies and technology solutions. To date, work continues in all of these areas.

Projected CPP contribution rates



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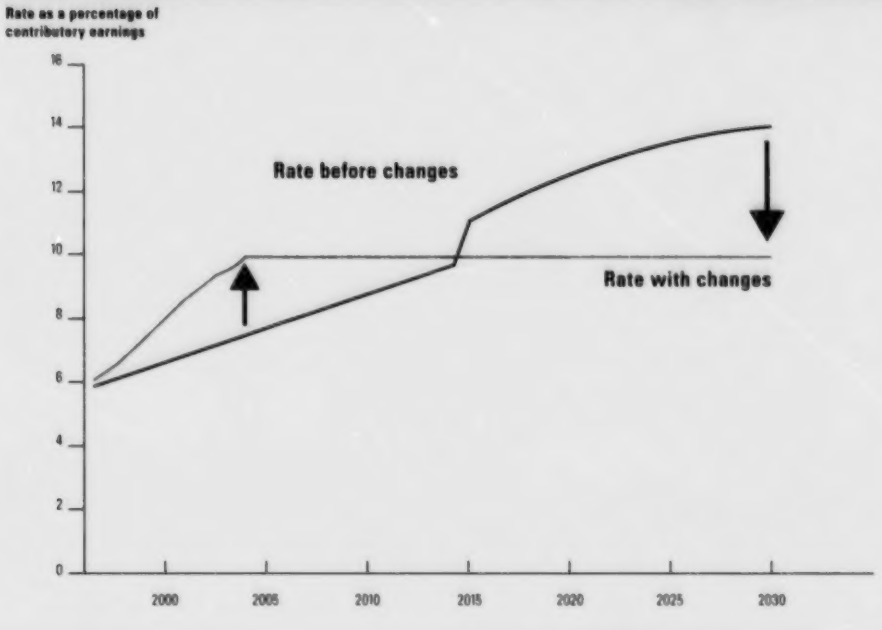

Departmental Reports for the Year

Human Resources Development Canada

Human Resources Development Canada (HRDC) delivers the Canada Pension Plan to Canadians through a cross-country network of over 300 points of service. The cost of administration of these services by HRDC was about $206 million in 1997-98.

Meeting Canadians' Day-to-Day Needs

HRDC provides Canadians with information about the CPP program, maintains records and accounts on clients and contributors, determines benefit entitlement and continuing eligibility, and manages appeals and program integrity.

The Department's Social Insurance Registry assigns Social Insurance Numbers to individuals and maintains the register of those numbers.

HRDC also negotiates and administers Social Security Agreements for clients living outside Canada and for new Canadians.

Serving CPP Clients

The HRDC delivery network offers clients a choice of how they can do business with the department. Services are offered through in-person service, by telephone and by mail. Information on benefits is also available through the Internet and at self-service electronic kiosks located at convenient sites across the country. Services are coordinated and supported by regional offices in each province and by national headquarters.

Over the past several years, the department encouraged clients to do their business by telephone. This had the desired effect. The aim was to level out the workload through improved scheduling and to reduce client waiting times. As a result, there was a significant decline in the number of clients served in person with a corresponding increase in clients served by telephone. However, as illustrated in Tables 13 and 14, 1997-98 showed a marked increase in both modes of service primarily as a result of legislative changes that came into effect in January, 1998.

Table 13 – **Number of Interviews at Client Centres**

Interviews, by type of benefit	1995-96	1996-97	1997-98
Pre-entitlement	122,677	71,445	157,567
Retirement	70,300	42,867	94,541
Survivor	52,114	31,436	69,329
Disability	46,494	28,578	63,027
Subtotal	291,585	174,326	384,464
Others: Credit Splitting Assignment Contributor Services Appeals Processing	17,677	11,431	25,211
Application Processing	36,012	20,005	44,119
Account Maintenance	134,273	80,018	176,475
Total	**479,547**	**285,780**	***630,279**

*Includes both CPP and OAS interviews.

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Number of telephone calls to Phone Centres

Telephone Calls by type	1995-96	1996-97	1997-98
Pre-entitlement	638,888	820,130	1,095,932
Application Processing	297,464	384,436	513,718
Account Maintenance	931,893	1,204,566	1,609,651
Contributor Services	121,768	153,774	205,488
Total Telephone Calls	**1,990,013**	**2,562,906**	**3,424,789**

Keeping The Records

Contributor Information Management (CIM) maintains the 23.2 million records of earnings and contributions to the Canada Pension Plan for the Canadian work force between 18 and 70 years of age.

During 1996-97, significant progress was made in identifying the proper owners of earnings and CPP contribution records that were held in unidentified files. Many of the records in these files are missing from contributor accounts because of errors in their Social Insurance Number or surname. Canada Pension Plan has been working steadily with Revenue Canada, the Régie des rentes du Québec, Revenu Québec, and the Social Insurance Registry of HRDC to assign the earnings and contributions in the special files to the proper clients' accounts. Between April 1997 and March 1998, arrears payments in the amount of $29.4 million were made as a result of changes in individual records of earnings.

Similarly, the earnings of fewer self-employed Canadians were posted to these special files, due to the same partnership arrangements. Only 385 entries belonging to self-employed clients were put in the special files between March 1996 and March 1998.

Informing Clients

CPP contributors are informed about the Canada Pension Plan through a personalized Statement of Contributions and CPP outreach information booths at various trade shows and exhibitions. During 1997-98 over 1.5 million personalized Statements of Contributions were mailed to CPP contributors between the ages of 35 to 39 and 55 to 64.

The outreach service more than doubled its direct client contact during 1997-98. At various booths across the country, more than 9,800 contributor clients were given direct assistance and information on the Canada Pension Plan. In 1997–98, more than 4,300 personal Statements of Contributions were produced for clients at these shows.

The Social Insurance Registry, which maintains the Social Insurance Number registration program, works closely with the CPP administration, Revenue Canada and the QPP to ensure that the social insurance register has the most accurate information possible.

The number of Social Insurance Numbers issued during 1997–98 was 717,049, an increase from the 1996–97 total of 669,501. As of the end of March 1998, the total Social Insurance Numbers issued since the program began was 33,048,273.

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Ensuring Program Integrity

In 1997-98, two reviews were planned by Control Initiatives with the aid of Treasury Board approved funding. The funding was approved contingent upon a minimum return on investment of 5:1 for each dollar approved. One was to examine a sample of retirement pensioners over 84 years of age, and survivor beneficiaries over 79. The other was to review CPP survivor beneficiaries where the payment system indicated that a benefit was being paid by the Quebec Pension Plan (QPP), but had not been assessed. This situation may result in a reduced benefit rate, or non-entitlement to CPP survivor benefits. Due to situations beyond our control, the CPP/QPP review could not be conducted.

The retirement +84 / survivor +79 initiative was aimed at confirming the existence of these beneficiaries, as well as providing an estimate of the payment inaccuracy rate of both populations based on the findings of the samples. The results indicate the extent of mispayment to the retirement +84 and the survivor +79 population in 1997 may have been as high as $2.1 million and $4.3 million respectively. The more probable extent however, would likely have been $1.4 million (retirement) representing 0.36 percent of the total payout to this population, and $2.9 million (survivor) representing 0.62 percent of the total payout to this population.

The Dollar Unit Sampling methodology was used to randomly select accounts to be reviewed for this initiative. The results are expressed as the best estimate of the range of possible errors and as the worst case scenario of the population's error rate 2.1.

In the fall of 1997, Treasury Board approved a further three-year funding plan for Program Integrity Control Initiatives.

All of the reviews, including the annual Random Review of CPP accounts, result in proposals presented to program administrators to reduce the occurrence of, or eliminate the cause of the error.

In 1997-98, 83 suspected fraud cases were referred to the RCMP for criminal investigation, involving a total value of $2,067,955. Of these, 63 cases, involving a total value of $1,893,243, related to a CPP disability benefit. Approximately $409,675 was recovered in 1997-98, including CPP fraud cases from previous years.

Managing Accounts Receivable

ISP continues to manage closely Accounts Receivable. In 1997–98, HRDC Corporate Collection recovered $8.9 million in cash repayments for which benefit overpayment had been identified. In addition $22.4 million was withheld from current benefits, resulting in a total savings of $31.3 million.

Systems Support

Business systems support ensures that the CPP application system operates effectively. In January 1998, major changes to the CPP legislation were successfully implemented. Also, as a contingency measure, work began in making CPP year 2000 compliant. In the fall of 1998, CPP systems were certified year 2000 ready. With the conclusion of ISP redesign, the work became more urgent in nature. The CPP Legacy System continued to be essentially frozen to all changes unless the changes were deemed essential, to accommodate legislated changes, correct mispayment situations or deal with emergencies affecting systems performance.

Within these limitations, work continued in order to:

- implement changes to the CPP legislation in January 1998;

- implement the single business registration number required by Revenue Canada for our earnings records;
- implement changes for a notional tax required by the Department of Finance;
- support the passing of information from the Legacy System to the rules-based reassessment system to ensure accuracy of information. (The rules-based reassessment system is an application which was designed to ensure a consistent decision-making process for the review of continuing eligibility to receive CPP disability benefits.);
- respond to requirements for a reporting data base to ensure the quality of business measurements.

The single greatest effort in ISP systems is to make our mission critical systems year 2000 compliant.

Work will continue in enhancing the interface with finance and administration to allow for the collection of interest on CPP overpayments and improving the use of the CPP systems in the regions.

Communicating with Clients

In 1997-98, the focus of CPP communication activities was two-fold: (1) ongoing communication with Canadians on the CPP, (2) informing Canadians about the changes to the CPP which came into force on January 1, 1998. To accomplish this, HRDC prepared and published updated versions of all CPP publications which are available at Human Resources Development Canada offices. In addition, a number of new communications initiatives were undertaken to support the CPP disability management strategy. These included preparing a disability presentation to be used in public education initiatives with partners and advocacy groups, and drafting two new vocational rehabilitation brochures, an appeals brochure, and an information guide for partners about the CPP disability program.

The Department's ISP Outreach Program provides information to clients either directly or indirectly through partnerships. The program aims at improving public awareness and understanding of the benefits and provisions of the Canada Pension Plan and Old Age Security program.

The program has headquarters and regional components. Headquarters is responsible for overall program management, national partnerships with federal, provincial and private-sector organiztions and for providing functional support and guidance to regions. Regional representatives across the country are responsible for regional management of the Program and establishing partnerships with regional and community-based organizations. Activities include presentations, training sessions, attendance at trade shows, targeted mailings and client contact.

Some current partnerships:

- Nova Scotia Education Project partnership with the Nova Scotia Department of Education and Culture which is a pilot project aimed at introducing CPP into the Career and Life Management (CALM) course in high schools.
- Ontario Funeral Directors partnership with Ontario Funeral Services Board to improve service to CPP clients and families at a time of bereavement.
- New Brunswick CPP/Workplace Health Safety and Compensation Commission which resulted in a joint publication concerning CPP & WHSCC disability benefits.

Establishing Information Sharing and Reimbursement Agreements

The department continues to pursue opportunities for information sharing and reimbursement agreements between CPP and the provincial governments, municipal authorities and private insurers.

In 1997-98, there were 14 agreements in place with provincial governments in relation to information sharing and the reimbursement of retroactive CPP benefit payment to provincial authorities who have made social assistance payments to persons who subsequently were eligible for CPP benefits. Other agreements are presently being negotiated.

The 38 current agreements with private insurers allow them to be reimbursed for that portion of the disability benefit that would not have been payable had the client been in receipt of CPP benefits.

Changes to Legislation and Regulations

Bill C-2, *An Act to establish the Canada Pension Plan Investment Board and to amend the Canada Pension Plan and the Old Age Security Act and to make consequential amendments to other Acts*, being Chapter 40 of the Statutes of Canada 1997, received Royal Assent on December 18, 1997. Most major amendments to the Canada Pension Plan resulting from Bill C-2 became effective on January 1, 1998. The enactment established the Canada Pension Plan Investment Board and made amendments to the contribution, benefit and funding provisions of the Plan.

In addition, a number of minor changes included provisions dealing with the restricted cancellation of retirement benefits in favour of disability benefits, set-offs between Human Resources Development programs, and reimbursement to provinces, municipalities and private insurers. The Canada Pension Plan has also been amended to modernize the protection of information provisions by creating a comprehensive information protection and disclosure code. New provisions added to CPP also provide new powers to investigate suspected fraudulent claims and to assess administrative penalties. These administrative penalties will come into effect upon an Order-in-Council.

In order to carry into effect the purposes and provisions of the amended CPP legislation, it is necessary to amend relevant Regulations. It is expected that minor regulatory changes will become effective in the spring of 1999.

Appealing a Decision

Individuals who are dissatisfied with a decision made on an application for CPP benefits have three opportunities to request a review of the decision. Close to 95 percent of all requests for review concern an application for disability benefits.

First Level Appeals involve a request to the Minister for a "reconsideration" or administrative review of a decision concerning a benefit or a division of pension credits. A request must be made to the Minister within 90 days of receiving the initial decision. A review of the file is then carried out by a... adjudicator who was not involved in the initial decision.

Despite an 8.3 percent decline in the number of disability applications received in 1997-98, the number of reconsiderations rose 66 percent during the same period. (See Table 15)

In the same period, the number of benefits awarded at appeal rose slightly from 23 percent to 27 percent. (See Table 16)

The preliminary results of the CPP Appellant Profile Review provided information on the broad characteristics of the appellant population. The need to

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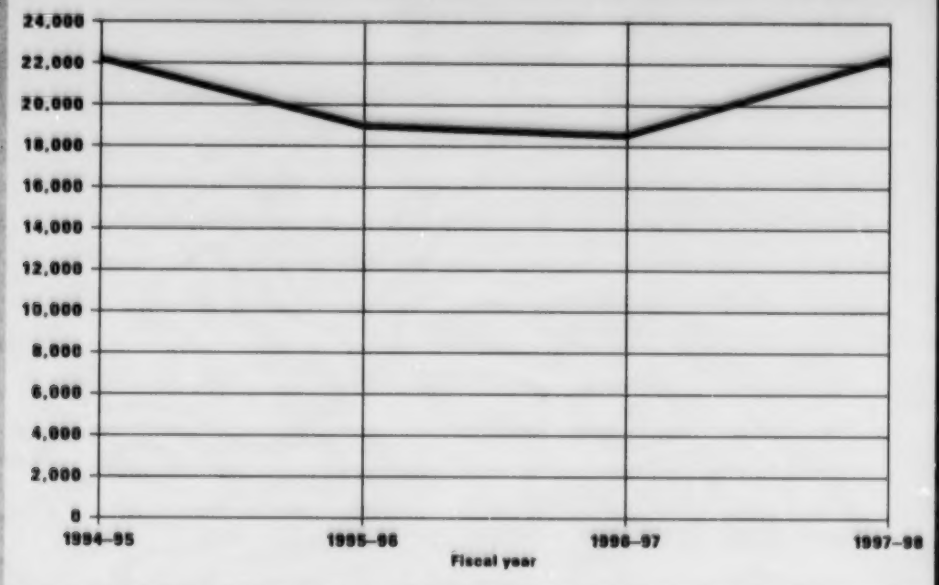

obtain additional and regular information on the appellant population, and on grant and denial trends was identified as a priority for 1998/99.

Second Level Appeals, or hearings by a Review Tribunal, are available to individuals dissatisfied with decisions rendered at the reconsideration level. A Review Tribunal is an independent body that does not act on behalf of the Minister, the appellant or any other party to an appeal. Each Review Tribunal consists of three qualified persons selected by the Commissioner of Review Tribunals from a panel of 100 to 400 members who are appointed by Orders-in-Council. The chairperson is always a member of the legal profession. If a disability benefit is involved, as in over 95 percent of the cases heard, at least one of the other members is a health care professional. Hearings are informal, closed to the public and usually held in or near the appellant's community. Table 17 provides an overview of the workload of Review Tribunals by fiscal year ending March 31, 1998.

About 8,000 hearings of the expected 9,000 hearings for 1997-98 were held. This was largely attributable to the shortage of Panel Members.

Approximately 7,900 cases outstanding at the end of 1997-98 represent about 8 1/2 months of appeals compared to 6 months for 1996-97. As of March 31, 1998, over 2,800 of the 7,900 appellants had been contacted and hearings arranged for April 1998 and onwards. A significant number of cases have

First Level Appeals – Grants versus Denial

Disability benefit granted	3,654	2,257	5,496	7,144
Disability benefit denied	7,025	7,802	18,826	19,034
Percentage of benefits awarded at appeal	35%	22%	23%	27%

[redacted] in 1998-99, there will be some 9,000 – 10,000 appeals to Review Tribunals, and cases commencing at year end will be reduced considerably.

A new computer system, an advanced booking process, enhanced production standards, and several other initiatives have been introduced to provide better service to clients and reduce costs per hearing.

Third Level Appeals are heard by the Pension Appeals Board (PAB), consisting of judges appointed by Order-in-Council. Six new members were appointed in December 1997. Board decisions are binding, and may be subject to judicial review by the Federal Court.

The increasing number of appeals at the first and second levels is having a significant impact on the caseload and backlog of unheard cases. The cases pending at March 31 have again almost doubled since the previous year.

[redacted] The CPP has been the subject of a number of challenges under the Canadian Charter of Rights and Freedoms. The Charter challenges against the CPP involve the provisions for survivor benefits, disability benefits and credit splitting. The major issues raised are whether or not survivor benefit provisions are discriminatory because male-only partners are not entitled to survivor benefits; likewise, persons under 35 years of age, who are not disabled and have no dependent children are ineligible. One case is now proceeding through the courts with approximately 34 cases on it for CPP appeal purposes.

On September 25, 1997, the majority of the Pension Appeals Board upheld the Minister's position in that the definition of spouse under the CPP was contrary to Section 15 of the Charter but reasonably justified under Section 1. The appellant appealed that decision to the Federal

Appeals to Review Tribunal

Cases for tribunal hearings	7,733	12,269	15,567	26.9
• Appeals allowed	769	1,385	1,864	
• Appeals dismissed	2,715	4,744	5,839	
• Hearings adjourned	122	265	329	
Total hearings held	3,606	6,394	8,032	25.6
Cases outstanding at year end	4,249	6,095	7,864	29.0

Pension Appeals Board Third Level Appeals

Workload – April 1st	589	1086	1982
Incoming workload	1106	1790	3070
Decision rendered (includes leave refused)	609	*894	1032
Cases pending at year end	1086	*1982	4020

*These figures were incorrectly reported in the previous Annual Report. These are the correct figures.

Table 15 – **Number of Disability First Level Appeals Received**

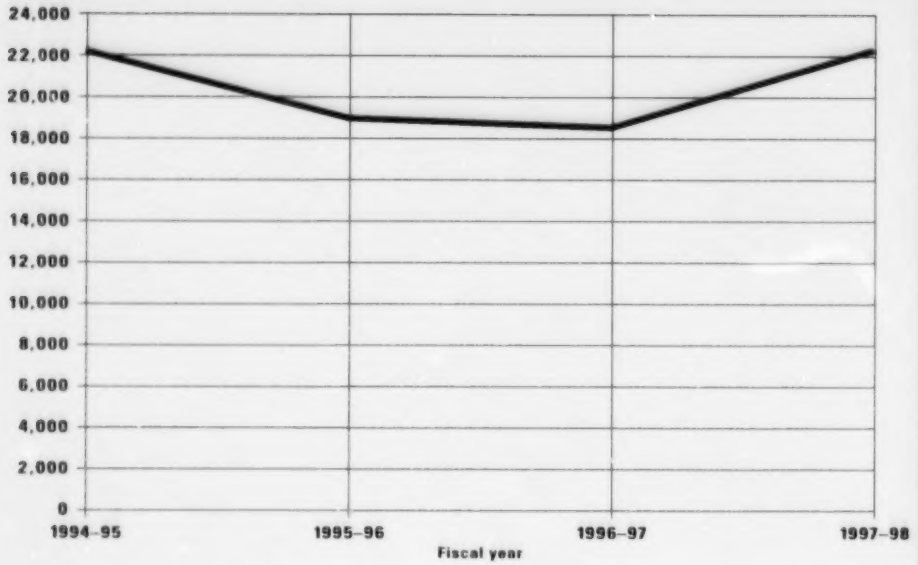

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Table 16 – **First Level Appeals – Grants versus Denials**

	1994–95 April–Sept	1995–96 Oct–March	1996–97	1997–98
Disability benefit granted	3,654	2,257	5,496	7,144
Disability benefit denied	7,025	7,802	18,826	19,034
Percentage of benefits awarded at appeal	35%	22%	23%	27%

been delayed at the request of appellants or their representatives. It is expected that, in 1998-99, there will be some 9,000 – 10,000 appeals to Review Tribunals, and cases outstanding at year end will be reduced considerably.

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Facing Charter Challenges

The CPP has been the subject of a number of challenges under the Canadian Charter of Rights and Freedoms. The Charter challenges against the CPP involve the provisions for survivor benefits, disability benefits and credit splitting. The major issues raised are whether or not survivor benefit provisions are discriminatory because same-sex partners are not entitled to survivor benefits; likewise, persons under 35 years of age, who are not disabled and have no dependent children are ineligible. One case is now proceeding through the courts while approximately 34 cases are in the CPP appeal process.

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Table 17 **Appeals to Review Tribunal**

	1995-96	1996-97	1997-98	% increase over previous year
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Cases outstanding at year end	4,249	6,095	7,864	29.0

Table 18 **Pension Appeals Board, Third-level Appeals**

Description	1995-96	1996-97	1997-98
Workload – April 1st	589	1086	1982
Incoming workload	1106	1790	3070
Decision rendered (includes leave refused)	609	*894	1032
Cases pending at year end	1086	*1982	4020

*These figures were incorrectly reported in the previous Annual Report. These are the correct figures.

Table 19 – CPP Benefits Under Social Security Agreements

Calendar year	Number of benefits in pay in month of December	Total benefits paid (in thousands)
1996	3,868	$11,246
1997	4,340	$13,039

Court of Appeal. As for the age provisions governing the payment of CPP survivor benefits, on April 17, 1996, the Federal Court of Appeal ruled the age provisions do not discriminate contrary to Section 15 of the Charter. The appellant appealed to the Supreme Court of Canada and the Supreme Court heard the case on January 19, 1998. On March 25, 1999, the Supreme Court of Canada rendered a unanimous decision that the Canada Pension Plan does not discriminate against widows and widowers under the age of 45 on the basis of age.

Canada's International Social Security Agreements

Social security agreements protect the pension rights of persons who move from one country to another to live or work. The Canadian programs included in agreements are the Canada Pension Plan and Old Age Security.

The basic objectives of agreements are to:

- reduce or eliminate restrictions, based on citizenship, that prevent Canadians from receiving pensions from another country;
- permit continuity of social security coverage when a person is temporarily working in another country, and prevent situations where a person must contribute to the social security programs of two countries for the same work;
- make it easier to become eligible for benefits by adding together creditable periods under the schemes of two or more countries;
- reduce or eliminate restrictions on the payment of pensions abroad.

As of March 31, 1998, Canada had agreements in force with 33 countries. Agreements with Chile, Croatia, Grenada, Korea, Morocco, Saint Vincent, Slovenia, Trinidad and Tobago and Turkey had been signed, but were not yet in force. There were agreements under negotiation with Argentina, Israel and Uruguay. Table 19 outlines the number and amount of benefits paid under social security agreements for 1996 and 1997.

In 1996, the last year for which information is available, the total amount of foreign pensions that came into Canada from other countries exceeded $1.5 billion. By contrast, only about $336 million was paid in OAS and CPP benefits to persons living outside Canada, a ratio of about 4.5:1 in Canada's favour. Specific to the social security agreements in force, the ratio of benefits coming into Canada versus those being paid out is 6.6:1.

Supporting Service Delivery

The services provided to the CPP from HRDC Corporate Services are:

- financial and administrative services including security and internal audit
- human resource services
- systems
- communications
- strategic policy including program evaluation
- legal services

These services support operations across the country delivering the services to CPP clients and providing program management and direction.

Interface with the Quebec Pension Plan (QPP)

The CPP and the QPP meet regularly to discuss issues of common concern, particularly as related to the approximately 100,000 Canadians who contribute to both plans (called dual contributors). Agreements are entered into between the two administrations to regulate the flow of work, to deal with legislative changes or differences, and to address operational matters.

In 1997-98, discussions dealt mainly with ISP redesign and its impact on joint CPP-QPP operations, and proposed legislative changes to both plans. These discussions will continue in 1998-99 to ensure effective links and to deal with the operational impact of any CPP and QPP legislative changes.

Public Works and Government Services Canada

Public Works and Government Services Canada (PWGSC) issues payments on behalf of the CPP and provides support services through the operation of information processing systems. These systems contain information on contributor earnings, benefit payments and program statistics. The cost of these services was about $17 million in 1997-98.

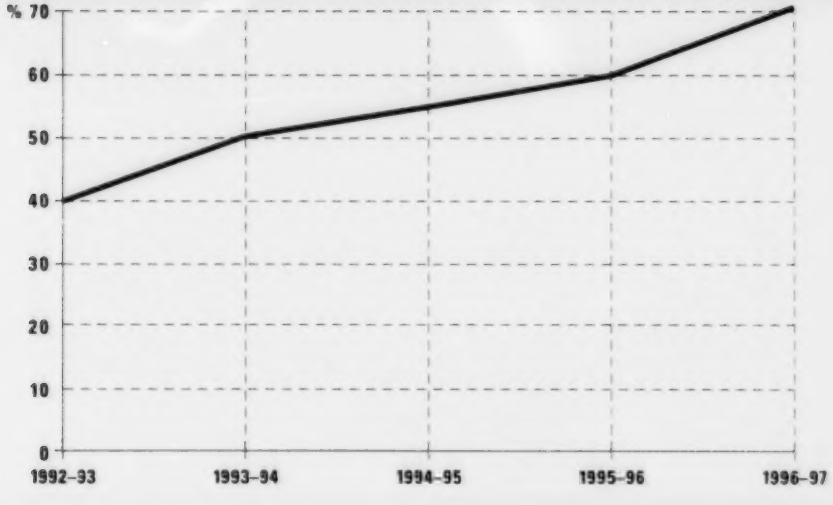
Accommodation services are also provided at a cost of about $15 million.

Activities and Initiatives

In 1997-98, PWGSC issued 39.4 million cheques and direct deposit payments compared with 37.8 million in 1996-97 and 36.8 million in 1995-96.

The percentage of benefit recipients who have chosen direct deposit continues to grow as illustrated in Table 20.

Table 20 – Growth in Direct Deposit



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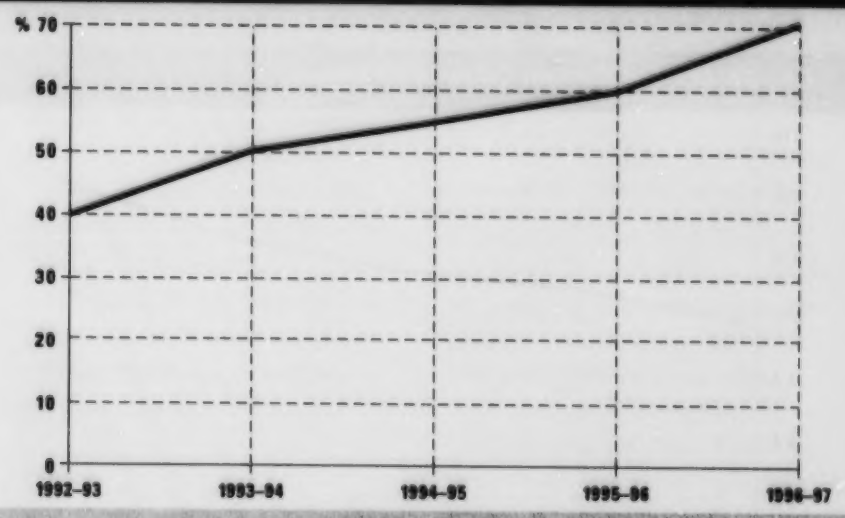
The percentage of benefit recipients who have chosen direct deposit continues to grow as illustrated in Table 28.

Growth in Direct Deposit



1995–96	3,536,684
1996–97	3,426,993
1997–98	3,607,396

During the 1997-98 fiscal year, 30.4 million payments were issued as direct deposit payments compared with 25.6 million in 1996-97.

A summary of the information slips issued annually in February is presented in Table 21.

Revenue Canada

Revenue Canada (RC) administers Part I of the CPP legislation which involves the determination and collection of contributions from employees, employers and the self-employed. RC provides reports on the earnings and contributions of contributors as well as statistical and other information. These activities, performed on behalf of the CPP, are fully integrated in RC's revenue collection processes and make up about 6 percent of the total funds collected by RC.

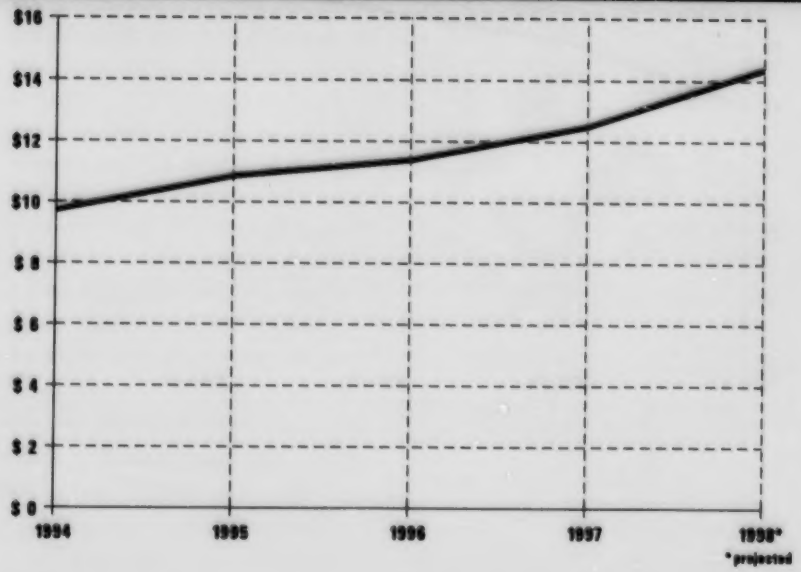
Activities and Initiatives

Revenue Canada's main activity on behalf of the CPP involves the determination and collection of contributions and related activities. Approximately 96 percent of the CPP contributions collected are received by employers and employees, and about 4 percent by the self-employed. The amounts collected annually are displayed in Table 22.

Compliance/Enforcement

To complement the collection activity, RC assesses and verifies earnings and contributions, advises employers and employees of their rights and responsibilities, conducts audits, and commences appeals and litigation.

CPP Contributions Collected (in billions)



Number of audits completed	64,083	56,982	57,630
Number of audits resulting in assessments for CPP	38,445	34,190	34,580
Percentage of audits resulting in assessments	60%	60%	60%

Table 21 – Information Slips Issued

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The cost of these services is determined by a formula involving a detailed cost survey, conducted periodically, which measures direct, indirect, and overhead costs. In subsequent years, until a new survey is done, costs will be charged on the existing ratio after adjusting for changes in volume, and the wage/price index. In 1997-98, the cost of these services was about $73.6 million.

Activities and Initiatives

Revenue Canada's main activity on behalf of the CPP involves the determination and collection of contributions and related activities. Approximately 96 percent of the CPP contributions collected are remitted by employers and employees, and about 4 percent by the self-employed. The amounts collected annually are displayed in Table 22.

Compliance/Enforcement

To complement the collection activity, RC assesses and verifies earnings and contributions, advises employers and employees of their rights and responsibilities, conducts audits, and reconciles reports and T4s submitted.

Table 22 – CPP Contributions Collected (in billions)

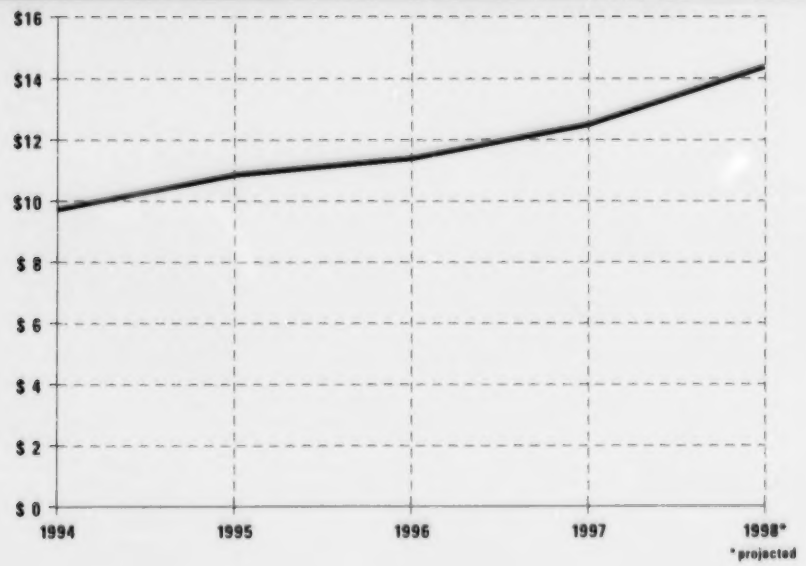


Table 23 - Audit Activity and Results

	Period ending March 31 1996-97	1997-98	1998-99 (projected)
Number of audits completed	64,083	56,982	57,630
Number of audits resulting in assessments for CPP	38,445	34,190	34,580
Percentage of audits resulting in assessments	60%	60%	60%

The compliance and enforcement process is divided into stages based on a progressive, risk-based approach ranging from computerized matching of data to on-site audits. As well, employers may request on-site assistance for clarification on payroll withholding requirements, or employees may seek advice if they feel their employer is contravening a related tax law.

Although most employers remit the proper amounts, some fail to comply, usually due to cash flow problems. When contacted by RC, these employers recognize that the employee trust deductions must be properly deducted, remitted and reported. Future compliance by these employers is generally good.

There are about 1.3 million employer accounts open of which approximately 900,000 are active at any one time. During 1997-98, 56,982 audits were conducted to resolve problems. The level of audit activity is summarized in Table 23. Like all other RC activities, an audit consists of not only reviewing the CPP deductions and remittances, but also verifying income tax and employment insurance deduction requirements.

Rulings

RC tax service offices and tax centres issue rulings, when requested or for enforcement purposes, on whether or not a worker is considered to be an employee with pensionable employment and on earnings for which contributions are required. RC's goal is to complete these rulings within 30 days of receipt.

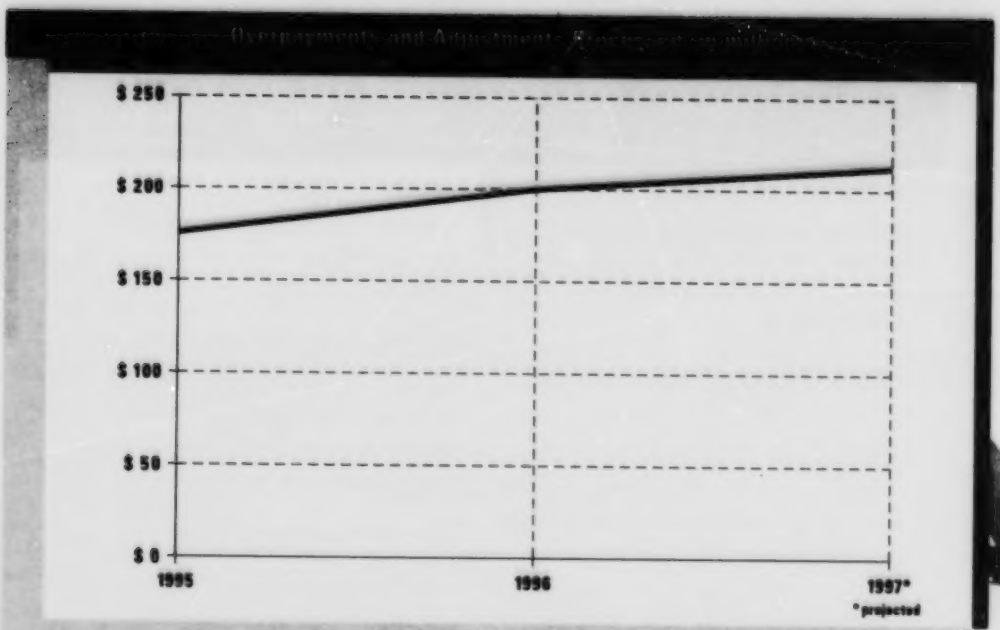
In 1997-98, RC made approximately 30,000 rulings.

Appeals

Under CPP, individuals have appeal rights for rulings and assessments. RC encourages employers to contact the Problem Resolution Program Co-ordinator before resorting to the more formal appeal process. Appeals, administered by independent appeals staff in RC tax service offices, result from approximately 9.3 percent of the CPP rulings and assessments issued. For issues that remain unresolved, there is recourse through the judicial process ranging from the Tax Court to the Supreme Court of Canada.

Coverage and Extensions of Coverage under Social Security Agreements

In accordance with Canada's social security agreements with many countries, RC issues certificates of coverage and extensions of coverage relating to the CPP. In 1997-98, RC issued about 1,728 certificates of coverage and 142 extensions of coverage. In addition, foreign employers without a place of business in Canada, may apply to have coverage under the CPP for employment they provide in Canada.



In order to better serve clients, tax service offices also present seminars on various ruling-related aspects of the CPP such as "Contract of Service".

Record of Earnings

The number of incorrect entries transmitted by RC to CPP, as well as the number of entries held in the unidentified files at CPP, have been a priority of the Interdepartmental Quality Improvement Team (RC and CPP). The teams' continued efforts have resulted in the quality of transmitted information improving significantly. Through joint projects and ongoing programs, approximately $68 million in contributions and $4.5 billion in earnings are added to the records of more than 2 million clients each year.

Overpayments and Adjustments

For the year ending December 1997, an estimated $211.2 million in CPP overpayments were processed. Some adjustments were also necessary on CPP contributions by self-employed individuals.

Overpayments and adjustments occur when an individual is employed at two or more positions at the same time during the year and is paying contributions for each employment. At year end, RC issues a refund since contributions are only paid up to a yearly maximum pensionable earnings amount regardless of the number of jobs held during the year. Table 24 presents the overpayments and adjustments processed by year.

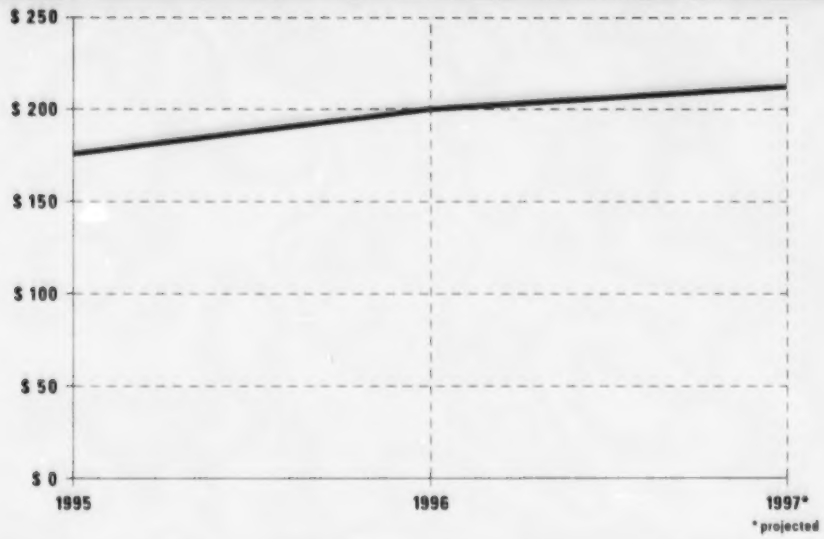
Publicity

RC publishes information on the CPP in a variety of guides, booklets, pamphlets, circulars, and news releases. The "Index to Revenue Canada Services" and the pamphlet entitled "Alimony or Maintenance" are two examples. RC also publicizes CPP information through such activities as the Community Volunteer Income Tax Program and "Teaching Taxes".

Department of Finance

The Department of Finance is responsible for leading the statutory review of the CPP and negotiations with the provinces, which can result in major changes to the CPP, including contribution rates. During 1997-98, as in previous years, the Department also managed the CPP Investment Fund. CPP monies not immediately needed to pay benefits were invested in securities of provincial and territorial

Table 24 – Overpayments and Adjustments Processed (in millions)



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governments, provincial Crown agencies, or the Government of Canada in accordance with the provisions of the CPP.

Following cross-Canada consultations in 1996, the federal and provincial governments reached agreement on proposed changes to the CPP in February 1997. This process culminated with the *Canada Pension Plan Investment Board Act* (Bill C-2, received Royal Assent December 18, 1997), under which the CPP Investment Fund will be managed at arm's length from government by the CPP Investment Board. The Board will invest in market securities to earn the best rate of return for contributors: passively in index-based securities for the first few years, and later in a diversified portfolio.

At March 31, 1998, the CPP had total assets of $37 billion, or about two years worth of benefits. Under the financing provisions of the new legislation, this will increase to between four and five years worth of benefits over the next two decades.

Activities and Initiatives

A wide range of changes were made to the CPP as a result of the legislative changes to strengthen the Plan's financing, improve its investment practices, and slow the growth of costs. These changes are discussed in detail under Special Initiatives on page 13.

Office of the Superintendent of Financial Institutions

The Chief Actuary prepares Actuarial Reports for tabling in Parliament on the projected financial status of the CPP Account, prepares actuarial estimates on proposed changes to the Plan's provisions for HRDC, the Department of Finance, or provincial governments, and calculates the effects on the CPP Account of proposed amendments to the CPP whenever a Bill is introduced in Parliament.

Activities and Initiatives

In 1997-98, actuarial advice, cost estimates and long-term financial projections on numerous proposed changes to the CPP financing and benefit provisions were provided to HRDC and the Department of Finance. Most of these requests pertained to the periodic review of the CPP by federal and provincial governments. In September 1997, the Sixteenth Actuarial Report on the CPP, which projected the effects on the CPP Account of the changes contained in Bill C-2, was tabled in Parliament.

DYNACAN is a microsimulation model designed to provide demographic and economic simulations of the CPP for social policy purposes. Work on DYNACAN continued throughout 1997-98. Validation to ensure consistency of results with the aggregate outcome of the actuarial model was largely achieved and it is now considered ready for "prime time".

The cost of these services was about $1.2 million in 1997-98.

Disability Initiatives

This chapter provides an update on the initiatives undertaken within the CPP disability program strategic management plan.

Background

The Canada Pension Plan is the single biggest disability program in Canada. In 1997-98, the CPP paid monthly benefits to 284,000 disabled contributors and 100,000 children of disabled contributors. In 1997, more than $2.7 billion was spent on CPP disability benefits. Of this, $2.5 billion went directly to disabled workers and $250 million was paid to their children.

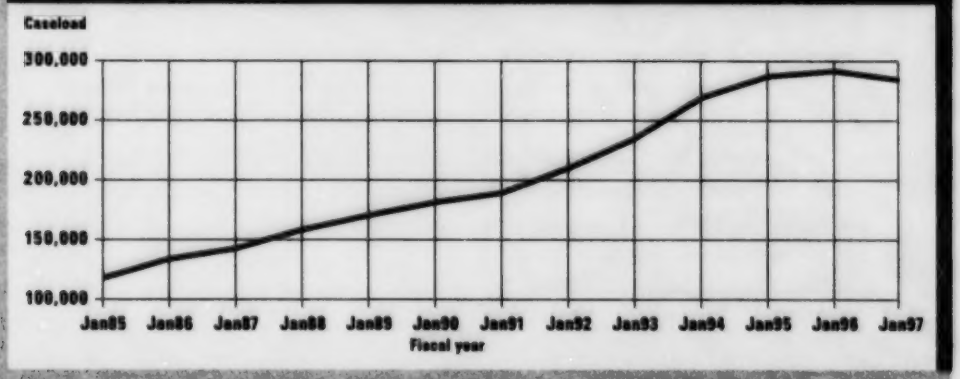
In the early 1990s, the disability program experienced a growing caseload – a trend which began to reverse in 1996. In that year, the number of new benefits began to decline and the number of beneficiaries leaving the program increased. In 1997-98, the overall disability caseload dropped by 8.3 percent.

A number of pressures affecting the administration of the CPP disability program surfaced in 1997-98: a significant increase in the number of appeals; a new climate of co-operation which is providing opportunities for better linkages with programs within HRDC, as well as outside of the department, with Workers' Compensation Boards and private insurers; and an ongoing effort to improve the administration of the program through better management information, training, quality assurance and communications.

CPP Strategic Management Plan

A status report on the CPP disability action plan was forwarded to the Auditor General in April, 1998. The plan highlights the activities in 1997, namely: managing program costs, management information and performance measurement, reassessment, vocational rehabilitation, information sharing, the appeals process and client communications.

Recent Trends in the Disability Case Load



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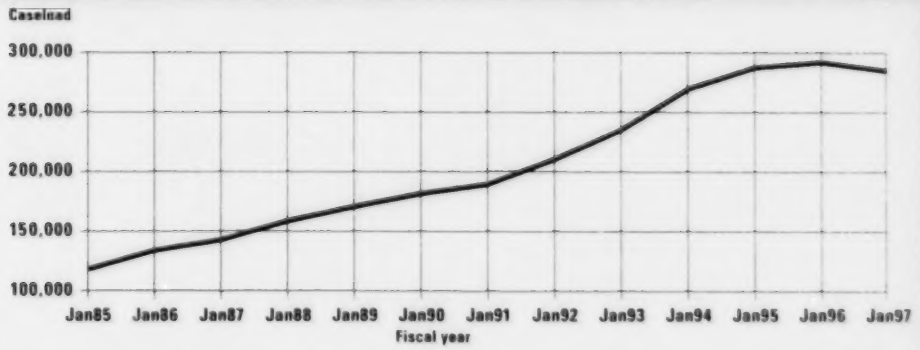

Improving Management Information

The Auditor General highlighted the need for better management information. During 1997-98, CPP set up a series of new reporting mechanisms. A trend analysis capacity was established in 1997 to monitor, assess, analyze and report on CPP disability trends. Two Disability Caseload Analysis Reports were produced in 1997 (January and September). A prototype trial to collect and analyze national statistics on initial disability determination, reconsiderations and Review Tribunal Appeals was concluded. The statistics are now collected monthly and shared with all regional offices. Finally a Management Information Framework was completed in late 1997. A committee was established to identify the framework for the collection of data to allow for strategic, causal and impact analysis, long range planning, statistics gathering, sampling and monitoring. In addition, national workshops were held during 1997-98 to identify longer-term performance measurement objectives for the administration of CPP disability.

Consistency in CPP Disability Adjudication

Prompt, high quality client service is vitally important to the delivery of the CPP disability program. In 1997-98, a major initiative was launched to review consistency in the adjudication of disability applications. The objective was to provide feedback to operational managers on consistency in the disability adjudication process, and to identify best practices and good business process which result in consistent eligibility determination. The review was conducted by a national/regional team using consistency tools developed specifically for this purpose. A national forum was held in November 1997 to exchange results and to identify training and coaching needed by regional staff involved in disability adjudication.

Client Service

The speed of service to clients applying for disability benefits continues to be a focus for administrative improvements. Determining eligibility on medical grounds is complex work. All medical and contributory information must be available in order to make a decision that reflects the provisions in the legislation. It is not unusual for several months to pass while CPP staff make (and often repeat) attempts to get the required basic medical information. Because the responsibility is on the client and/or their doctor to provide the information requested, progress in obtaining information is not always within CPP's control. A number of initiatives were undertaken to improve the process for getting "capacity to work" information at the time of the initial application.

In the fall of 1997, the initial disability application was amended in order to ensure the physician's requirement to provide copies of test results which would objectively substantiate "incapacity to perform work". Research has also begun to assess the feasibility of using functional capacity assessments for this purpose.

To support the monitoring of quality decision-making, the rules-base system was developed as a sub-system of the adjudication system. Rules were developed for non-medical eligibility for disability benefits.

Table 26 – **Reassessment Savings and Overpayments**

Year ending March 31	Number of decisions	Number of benefits ceased	% of benefits ceased	Annual savings	Overpayments
1994–95	3,407	1,681	49.3	$16,261,680	$6,224,600
1995–96	6,968	2,328	33.4	$21,060,672	$6,033,510
1996–97	14,036	2,633	18.8	$24,353,940	$12,808,696
1997–98	11,833	2,985	25.0	$27,601,848	$23,368,933

* Based on actual benefit rates for 12 months

The Reassessment Program

CPP regularly reassesses clients to ensure that only those eligible continue to receive benefits. There are several triggers which prompt a reassessment. In some cases, when a client is granted a disability benefit, there are indications that there might be improvement in the future which would allow the client to re-enter the work-place. Third parties may tell CPP that clients have already returned to work. CPP also receives earnings information in cooperation with Employment Insurance and from Revenue Canada.

In 1997-98, the emphasis was placed on making the reassessment system more efficient and effective. New tracking mechanisms help to identify those who most likely may not continue to be eligible for disability benefits. New prescheduled reassessments were given a high priority. A total of 5,481 decisions were made in 1997-98 on accounts with a prescheduled trigger. There are now four types of prescheduled triggers being tracked ensuring that new prescheduled reassessments are done in a timely manner.

On average, about 25 percent of reassessments result in the cessation of benefits. In 1997-98, 11,833 reassessment cases were finalized resulting in an estimated annual savings of $27.6 million to the CPP.

The number of reassessment decisions made in 1997-98 was lower than in 1996-97 due to the growing complexity of cases requiring reassessment. In addition, staff was temporarily reassigned to help ensure faster service to new applicants.

Prior to 1997-98, the branch had difficulty in estimating disability overpayments. To address this difficulty, a tool was developed to improve the medical assessment of cases selected in the reassessment random review and the use of this tool may be expanded to other areas of disability assessment.

The Vocational Rehabilitation Program

Following a successful national pilot project, CPP established a new vocational rehabilitation program targeted to those clients who are medically able and want to return to work. The program operates on a case management model with services provided by private-sector vocational rehabilitation specialists. CPP works with the client to develop an individual return to work plan which can include vocational placing and assessment, skills up-grading and assistance with job search.

A national/regional planning committee managed the establishment of the vocational rehabilitation program as part of

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CPP regularly reassesses clients to ensure that only those eligible continue to receive benefits. There are several triggers which prompt a reassessment. In some cases, when a client is granted a disability benefit, there are indications that there might be improvement in the future which would allow the client to re-enter the work-place. Third parties may tell CPP that clients have already returned to work. CPP also receives earnings information in cooperation with Employment Insurance and from Revenue Canada.

In 1997-98, the emphasis was placed on making the reassessment system more efficient and effective. New tracking mechanisms help to identify those who most likely may not continue to be eligible for disability benefits. New prescheduled reassessments were given a high priority. A total of 5,481 decisions were made in 1997-98 on accounts with a prescheduled trigger. There are now four types of prescheduled triggers being tracked ensuring that new prescheduled reassessments are done in a timely manner.

On average, about 25 percent of reassessments result in the cessation of benefits. In 1997-98, 11,833 reassessment cases were finalized resulting in an estimated annual savings of $27.6 million to the CPP.

The number of reassessment decisions made in 1997-98 was lower than in 1996-97 due to the growing complexity of cases requiring reassessment. In addition, staff was temporarily reassigned to help ensure faster service to new applicants.

Prior to 1997-98, the branch had difficulty in estimating disability overpayments. To address this difficulty, a tool was developed to improve the medical assessment of cases selected in the reassessment random review and the use of this tool may be expanded to other areas of disability assessment.

The Vocational Rehabilitation Program

Following a successful national pilot project, CPP established a new vocational rehabilitation program targeted to those clients who are medically able and want to return to work. The program operates on a case management model with services provided by private-sector vocational rehabilitation specialists. CPP works with the client to develop an individual return to work plan which can include vocational placing and assessment, skills up-grading and assistance with job search.

A national/regional planning committee managed the establishment of the vocational rehabilitation program as part of

the regional delivery of the CPP disability program. An evaluation framework was developed, policy guidelines completed and the Rehabilitation Case Management System (RCMS) was implemented regionally. The vocational rehabilitation program began operation in Manitoba, Ontario and Nova Scotia in the third quarter of 1997-98, and was fully operational in all regions by mid-1998.

Partnership, Information Sharing and Increased Co-operation

In order to better serve mutual clients, CPP is building partnerships with other disability programs. Changes to the CPP legislation as part of Bill C-2 allow for broader conditions for sharing CPP information with these programs.

During 1997-98, CPP initiated contact with all Workers' Compensation Boards to indicate interest in developing information-sharing agreements. These agreements will allow for identification of areas for administrative streamlining, providing joint service and undertaking cooperative efforts to encourage re-employment thereby providing seamless service to mutual clients. Several pilot projects are also underway with private insurers to test the effectiveness of joint case management and sharing client information.

Improving the Appeals Process

In 1997-98, a broad review of the appeals process was initiated to identify opportunities for longer-term systemic reform. A discussion paper outlining proposals for changing the structure of the appeals process was completed in February, 1998.

CPP continues to work closely with the Review Tribunal and the Pension Appeals Board (PAB) to better coordinate and update management practices, improve client communications at all levels and look at other measures in an effort to reduce the length of time it takes to appeal a decision. Work was initiated in October, 1997 to identify improvements to the PAB process in order to better manage the increased workload.

To improve day-to-day operations, regional points of contact were set up between the office of Review Tribunals and the regional offices. The branch also improved its support to the Review Tribunal process by clarifying the role of the Review Tribunal representative and preparing a training plan. The first module of the learning framework was completed in March, 1998 and national workshops were held on case submission writing.

Various administrative improvements were implemented in 1997-98 at the Review Tribunal level of appeal including an advanced booking system for hearings; a new computer system to improve management reports and facilitate bookings; and enhanced office procedures to ensure clients receive Review Tribunal decision letters in a more timely manner.

Also during 1997-98, many initiatives were undertaken at the Pension Appeals Board to address the appeal backlog. Recent changes to the CPP legislation permit all PAB judges to make decisions on requests for Leave to Appeal to the PAB. Previously, only the Chair and Vice-Chair of the PAB could decide on applications for Leave to Appeal.

Communicating with CPP Disability Clients and Their Advocates

Studies indicate that many people are not well informed about the CPP disability benefit, the appeals process, how a decision is made and what information is required from the applicants and/or their physicians.

In 1997-98, several initiatives were undertaken to improve client communication:

- Technical briefings on the CPP disability program were held with Members of Parliament and Senators and their staff in February, 1998. The sessions were well attended and focused on the appeals system and how it works. This national briefing was replicated in most regions.
- A new appeals booklet was developed and focus tested with clients and their advocates. The booklet fully explains the three levels of appeal, the documentation required and other pertinent information.
- Communications products were also produced to support the vocational rehabilitation program. Both the client and partner brochures as well as the client letters were evaluated through focus-testing with clients, service-providers and other interested groups.

The Canada Pension Plan Account

CPP Account

The CPP Account is established in the Accounts of Canada by the CPP to record the contributions, interest, pensions, benefits and administrative expenditures of the Plan. The authority to spend is limited to the balance in the Account. The Statement of Revenue, Expenditures and Balance of the CPP Account for the year ended March 31, 1998, with the previous year's statement as audited by the Auditor General of Canada, is presented on page 44. The Account's balance represents the excess of contributions and interest over benefits and expenditures accumulated since its inception in 1966.

The CPP Account, which is audited annually by the Auditor General of Canada, is a separate account in the Accounts of Canada. As of March 31, 1998, the balance in the Account of about $36.7 billion equals 2.09 years' worth of benefits. These funds provide a reserve in the event of circumstances such as lower than expected contributions because of economic conditions or higher than expected benefit payments.

The CPP Account comprises an operating reserve and the CPP Investment Fund. The operating reserve is maintained at a level to meet the anticipated benefit payments and administrative charges from the Account for the next three-month period. These funds may not be invested in provincial securities but earn interest on the average daily balance of the reserve. The interest paid on these funds is calculated by averaging the unweighted average yields at tender on three-month Treasury Bills during the month the interest is paid, less one-eighth of one percent. During 1997-98, the average interest rate earned by the operating reserve was 3.53 percent or $158 million. All funds in excess of this, as determined by the Minister of Finance, are invested in securities.

CPP Investment Fund

In accordance with the CPP legislation, funds not immediately needed to pay for benefits were invested in securities of the provincial and territorial governments, provincial Crown agencies, and the Government of Canada. All securities are carried at cost, are non-negotiable, and have a 20-year term or less, as fixed by the Minister of Finance on the recommendation of the Chief Actuary. The share of total CPP contributions credited to a province or territory during the preceding ten years determines the distribution of investments among the provinces and territories. Funds not accepted by the provinces as well as excess funds received from armed forces personnel and other employees outside of Canada were invested in Government of Canada securities. At March 31, 1998, the balance in the Investment Fund was $32.4 billion with all securities held having a 20-year term.

Prior to maturity, these securities are redeemable in whole or in part if funds are needed to pay benefits, at the option of the Minister of Finance, who must give written notice six months before the proposed redemption date.

Interest

The interest rate on the securities was determined at the time of purchase by the Minister of Finance based on the average yield to maturity of all outstanding Government of Canada obligations with terms of 20 years or more. The Statement of Purchases, Disposals and Balance for the year ended March 31, 1998, as presented on page 45 summarizes the status of the Investment Fund as of March 31, 1998. In 1997-98, the Investment Fund earned about $3.785 billion in interest, which was deposited in the CPP Account. Maturing securities are regularly redeemed with the principal and any outstanding interest reimbursed by the provinces and territories. In 1997-98, $1.582 billion in securities bearing a weighted average interest rate of 9.1 percent matured and were redeemed. All interest and principal payments have always been paid by the provinces and territories when due.

Although no funds have been available to invest in 20-year securities since July 1992, some funds have been available on a periodic basis for short-term investments. As a result, short-term investments of $1.009 billion were made during 1997-98.

Rates of Return

The Investment Fund will benefit from the high rates of return of securities currently held, which bear a weighted average annual return of 11.36 percent. Since these securities are 20-year government bonds, the Fund's average rate of return will remain above 10 percent for the next several years. These securities were bought in the early 1980s when interest rates were relatively high, and the rate of return in the short term will therefore exceed the Fund's expected long-term, nominal rate of return of 7 percent. The long-term return will be earned by a more diversified portfolio of securities managed at arm's length from government (see "A New Investment Policy", page 39) and is higher than the rate that could be obtained by continuing the policy of investing only in government bonds.

Administrative Costs

The approximately $312 million annual cost for 1997-98 to administer the CPP is shared among all departments responsible for delivering CPP services. Human Resources Development Canada (HRDC) accounts for the largest portion, $206 million; Revenue Canada (RC) spends about $75 million; Public Works and Government Services Canada (PWGSC) about $30 million; the Office of the Superintendent of Financial Institutions (OSFI) about $1 million; and the Department of Finance about $500,000.

Costs are allocated to the CPP based on the costing principles approved by Treasury Board and included in the Memorandum of Understanding established with each department. The underlying characteristics of the costing principles are that the charges have a causal relationship to the CPP for their occurrence and are traceable.

As a ratio of costs-to-benefits-paid, administrative expenses represent 1.77 percent of the $17.5 billion in benefits paid (1.75 percent of total expenditures). This ratio compares favourably with that of other pension plans. For example, large pension plans in the private sector had, on average, administrative costs equal to 5 percent of the total expenditures in 1996.

M121

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Summary of Actual and Estimated CPP Administrative Costs Forecast of Expenditures by Department/Branch 1995-96 to 2000-01 (in thousands)

	ACTUALS		FORECASTS		
	1996-97	1997-98	1998-99	1999-00	2000-01
HRDC administration	$ 143,727	$ 189,700	$ 247,400	$ 194,800	$ 194,800
Revenue Canada	$ 69,814	$ 74,800	$ 75,800	$ 74,600	$ 77,000
PWGSC-Services	$ 14,841	$ 17,864	$ 14,000	$ 14,000	$ 14,000
PWGSC-Accommodation**	$ 12,407	$ 13,736			
OSFI	$ 1,375	$ 1,100	$ 1,100	$ 900	$ 1,000
Finance		$ 500	$ 600	$ 600	$ 600
Total	**$ 242,164**	**$ 297,700**	**$ 338,900**	**$ 284,900**	**$ 287,400**

**Starting in 1998-99 accommodation costs are included in HRDC as opposed to PWGSC to reflect inclusion of accommodation in the HRDC vote of budget.

Table 27 presents the administrative expenditure forecasts for the coming years.

The amount shown in 1997-98 and the subsequent forecasts for HRDC Administration costs have changed significantly from the 1996-97 CPP Annual Report due to Treasury Board approval of the ISP Omnibus Submissions during fiscal 1997-98.

The submission approved funding over a three-year period (1998-99 to 2000-01) to address the increasing workload and other internal and external pressures. These included:

- CPP legislative changes to ensure long-term stability and sustainability of the program
- maintaining and improving client telephone services, putting more emphasis on program integrity initiatives and enhanced performance measurement mechanisms, as well as establishing stronger headquarters-regional operational links.
- addressing the Auditor General's recommendation and the concerns of the general public to strengthen management of the CPP disability program; substantial resources were to be invested in the reassessments and vocational rehabilitation of clients, setting up a formal quality assurance program and increasing communications efforts with current and potential clients and with other disability program providers.

A New Investment Policy

Under the old investment policy, funds not required immediately to pay benefits were invested in non-marketable provincial government securities. Provinces paid interest at the federal long-term bond rate prevailing at the time that the bonds were purchased.

Under the new legislation, however, a new investment policy will secure a higher long-term rate of return on the substantially larger CPP fund, and better protect the fund under a variety of economic conditions. The larger CPP fund will be prudently invested in a diversified portfolio of securities in the best interests of contributors and beneficiaries. An independent Investment Board will make these investments at arm's length from governments.

Based on prudent assumptions, under the policy the CPP could secure an average long-run return of 3.8 percent

Table 27 - **Summary of Actual and Estimated CPP Administrative Costs Forecast of Expenditures by Department/Branch – 1995-96 to 2000-01 (in thousands)**

	ACTUALS		FORECASTS		
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Based on prudent assumptions, under the policy the CPP could secure an average long-run return of 3.8 percent

a year above the rate of inflation, compared to 2.5 percent under a continuation of the old policy. A higher investment return on the fund will help keep contribution rates down.

The Investment Board will operate under broadly the same investment rules that apply to other Canadian pension funds, and hire professional asset managers to make day-to-day investment decisions at arm's-length from governments.

The foreign property limit for pension funds will apply to the CPP Investment Board. To ensure the fund's smooth entry into the market, the Board's domestic equity investments will be selected passively, substantially mirroring broad market indexes. This passive approach will be re-evaluated at the next CPP review, in 1999.

When provinces borrow from the CPP, they will pay the same rate of interest as they do on their own market borrowings. As a transitional measure reflecting historical arrangements, provinces will have the option of rolling over existing CPP borrowings at maturity for another 20-year term. In addition, provinces will have access, at market rates, to a specified percentage of the funds that the Board chooses to invest in bonds. During the first three years, provinces will have access to 50 percent of the amount that the Board allocates to bonds. After this three-year period, this percentage will be consistent with the percentage of bond holdings allocated to provincial and municipal bonds by Canadian pension funds generally.

The Investment Board will be required to meet high standards of public accountability by: making its investment policies, standards and procedures public; preparing quarterly financial statements and providing them to federal and provincial finance ministers; publishing a detailed annual report; and holding regular meetings in each province for public discussion and input.

The Canada Pension Plan Account and the Canada Pension Plan Investment Fund

Financial Statements

MARCH 31, 1998

Canada Pension Plan Account and the Canada Pension Plan Investment Fund

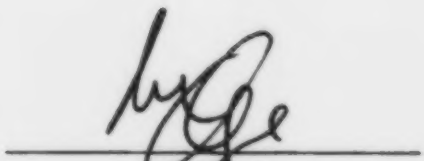
Management's Responsibility for the Financial Statements

The following financial statements have been prepared by management of the Department of Human Resources Development in accordance with the accounting policies set out in Note 2 to the financial statements. The integrity and objectivity of the data and estimates in these financial statements are management's responsibility. Management is also responsible for all other information in the Annual Report of the Canada Pension Plan and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements of the Canada Pension Plan Account and the Canada Pension Plan Investment Fund.

In support of its responsibility, management has developed and maintains books of account, financial and management controls, information systems and management practices. These are designed to provide reasonable assurance as to the reliability of financial information, and to ensure that transactions are in accordance with the Canada Pension Plan (the Act) and Regulations, as well as the Financial Administration Act and Regulations.

The Auditor General of Canada, the external auditor of the Canada Pension Plan, audits the financial statements and reports to the Minister of Human Resources Development.

Serge Rainville
Assistant Deputy Minister
Financial and Administrative Services



Mel Cappe
Deputy Minister

July 30, 1998

AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

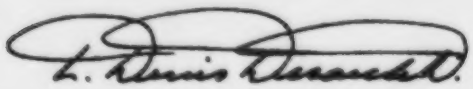
To the Minister of Human Resources Development

I have audited the statement of revenue, expenditures and balance of the Canada Pension Plan Account and the statement of purchases, disposals and balance of the Canada Pension Plan Investment Fund for the year ended March 31, 1998. These financial statements are the responsibility of the management of the Department of Human Resources Development. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the balances of the Account and the Investment Fund as at March 31, 1998 and the revenue and expenditures of the Account and the purchases and disposals of the Investment Fund for the year then ended in accordance with the accounting policies set out in Note 2 to the financial statements.

I wish to draw to your attention that, as disclosed in Note 5, overpayments of disability benefits occur. Plan administrators have taken additional measures to prevent, detect and estimate the occurrence of mispayments. At the present time, these measures are not fully operational. This situation will require close monitoring to ensure that these measures, including sufficient reassessments to verify the continuing eligibility of beneficiaries, are implemented satisfactorily.



L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada
July 30, 1998

Canada Pension Plan Account

Statement of Revenue, Expenditures and Balance for the year ended March 31, 1998

(in millions of dollars)

	1998	1997
Revenue		
Contributions (Note 3)	12,790	11,391
Interest (Note 4)	3,950	4,118
	16,740	15,509
Expenditures		
Pensions and benefits (Note 5)		
Retirement	11,827	11,179
Disability	2,542	2,512
Survivor	2,447	2,309
Death	269	234
Disabled Contributor's Child	250	245
Orphan	202	197
	17,537	16,676
Administration costs (Note 6)	298	242
	17,835	16,918
Excess of Expenditures over Revenue	(1,095)	(1,409)
Balance at beginning of year	37,759	39,168
Balance at end of year	36,664	37,759
Represented by:		
Canada Pension Plan Investment Fund	32,459	34,041
Deposit with the Receiver General for Canada	4,205	3,718
	36,664	37,759

Contingencies (Note 8)

The accompanying notes are an integral part of these financial statements.

Approved by the Department of Human Resources Development:

Serge Rainville
Assistant Deputy Minister
Financial and Administrative Services

Mel Cappe
Deputy Minister

Canada Pension Plan Investment Fund

Statement of Purchases, Disposals and Balance for the year ended March 31, 1998

(in millions of dollars)

	Balance at beginning of year	Purchases	Disposals	Balance at end of year
Investment in securities (Note 7)				
New foundland	706	-	33	673
Prince Edward Island	156	-	7	149
Nova Scotia	1,277	-	63	1,214
New Brunswick	944	-	48	896
Quebec	111	-	8	103
Ontario	14,957	-	851	14,106
Manitoba	1,789	-	91	1,698
Saskatchewan	1,522	-	69	1,453
Alberta	4,335	-	163	4,172
British Columbia	4,773	-	238	4,535
Yukon Territory	4	-	-	4
	30,574	-	1,571	29,003
Canada	3,467	-	11	3,456
	34,041	-	1,582	32,459

The accompanying notes are an integral part of these financial statements.

Approved by the Department of Human Resources Development:

Serge Rainville
Assistant Deputy Minister
Financial and Administrative Services

Mel Cappe
Deputy Minister

Canada Pension Plan Account and the Canada Pension Plan Investment Fund

Notes to financial statements for the year ended March 31,1998

1. Description of the Canada Pension Plan

a) General

The Canada Pension Plan began in 1966. It is a compulsory and contributory social insurance program operating in all parts of Canada, except Quebec, which operates a comparable program. The Plan's objective is to provide a measure of protection to workers and their families against the loss of earnings due to retirement, disability or death.

b) Establishment and authority

The Canada Pension Plan (CPP) is a federal/provincial plan established by act of Parliament in 1965.

The Minister of Human Resources Development is responsible for the administration of the act governing the Canada Pension Plan, other than collecting contributions, which is the responsibility of the Minister of National Revenue. The Minister of Finance and his provincial counterparts are responsible for setting CPP contribution rates.

The Canada Pension Plan Account (the Account) was established in the accounts of Canada by the Act, to record the contributions, interest, pensions, benefits and administration costs of the Plan. The authority to spend is limited to the balance of the Account.

The Canada Pension Plan Investment Fund (the Fund) was established in the accounts of Canada by the Act, to record the investment in securities of provinces, territories and Canada.

The CPP, which is under joint control of the Government of Canada and participating provinces, is not considered to be part of the reporting entity of the Government of Canada. Accordingly, its financial activities are not consolidated with those of the Government.

c) Financing

CPP is financed on a pay-as-you-go basis, which means that the Plan operates on a current basis with pensions and benefits being paid out of current contributions. The balance in the Account is planned, over time, to equal approximately four times the annual payments projected for the following year.

CPP is financed from contributions and interest earned by the Investment Fund. Contributions are paid equally by employers and employees. Self-employed workers pay the full amount.

From 1966 to 1986, the combined employer-employee contribution rate remained at 3.6% of pensionable earnings. In 1987, it was raised to 3.8% and has increased yearly by 0.2% to reach 5.6% in 1996. In 1997 and 1998, the combined contribution rate was increased by 0.4% to reach 6.0% and 6.4% respectively. The maximum combined contributions are $1,938 for 1997 and $2,138 for 1998.

Bill C-2, which was proclaimed on December 18, 1997, provides a schedule of contribution rates for 1997 to 2003 and subsequent years. As required by the Act, the Chief Actuary of the Office of the Superintendent of Financial Institutions prepares a periodic actuarial report whenever a Bill is introduced in the House of Commons to amend the CPP. Therefore, the Chief Actuary prepared the Sixteenth Actuarial Report, on the basis of the Fifteenth Report, to show the effect of Bill C-2 on the long-term financial status of the CPP.

As stated in the Act, changes to contribution rates require the approval of at least two-thirds of the provinces having in the aggregate not less than two-thirds of the population of all included provinces.

d) Pensions and benefits

Retirement pensions - A retirement pension is payable to each contributor at age 60 or older, according to the provisions of the Act. The monthly amount is equal to 25% of the contributor's average monthly pensionable earnings during the pensionable period. The amount may be reduced or increased depending upon whether the contributor applies for a retirement pension before or after age 65. This adjustment cannot exceed 30%. The maximum monthly pension payable at age 65 in 1998 is $744.79.

Disability benefits - A disability benefit is payable to a contributor who is disabled, according to the provisions of the Act. The amount of the disability benefit to be paid includes a flat rate portion and an amount equal to 75% of the earned retirement pension. The maximum monthly disability benefit in 1998 is $895.36.

Survivor's benefits - A survivor's benefit is payable to the surviving spouse of a deceased contributor, according to the provisions of the Act. For a spouse under the age of 65, the benefit consists of a flat-rate portion and an amount equal to 37.5% of the deceased contributor's earned retirement pension. A surviving spouse between the ages of 35 and 45 who is not disabled or who has no dependent children receives reduced benefits. For spouses aged 65 and over, the benefit is equal to 60% of the retirement pension granted to the deceased contributor. The maximum monthly benefit payable to a surviving spouse in 1998 is $446.87.

Disabled contributor's child and orphan benefits - According to the Act, each child of a contributor who is receiving disability benefits or who died is entitled to a benefit as long as the child is under the age of 18, or is between the ages of 18 and 25 and attending school full-time. The flat-rate monthly benefit in 1998 is $169.80.

Death benefits - According to the Act, a death benefit is a one-time payment to, or on behalf of, the estate of a contributor. The benefit amounts either to 10% of the maximum pensionable earnings in the year of death or six times the monthly retirement pension granted to the deceased contributor, whichever is less. The maximum death benefit in 1998 is $2,500.

Pensions and benefits indexation - As required by the Act, pensions and benefits are indexed annually based on the Consumer Price Index for Canada. The rate of indexation for 1998 is 1.9%.

2. Accounting policies

The financial transactions affecting the Account and the Fund are governed by the Act governing the Canada Pension Plan and its regulations.

The Act does not require that the pensions and benefits be prefunded. Accordingly, the financial statements do not provide information on the adequacy of the balance in the CPP Account to meet, on an actuarial basis, the future obligations of the CPP.

a) Canada Pension Plan Account

Contributions are recorded when funds are received from Revenue Canada. As stated in Note 3, funds transferred by Revenue Canada are estimated and are subject to review and adjustments. Adjustments, if any, are recorded as contribution revenue in the year the funds are received or reimbursed.

Interest revenues are recorded when received.

Pensions and benefits are recorded when paid.

Administration costs are recorded on a modified cash basis of accounting. This basis of accounting allows the recording of amounts paid in a specific period after year-end.

b) Canada Pension Plan Investment Fund

Securities are shown at cost, which is equal to the face value at the time of purchase.

3. Contributions

The Department of Finance estimates annual contributions based on an estimate of pensionable earnings. The calculation of pensionable earnings is based on a formula using many factors such as the growth in the number of contributors and in the average pensionable earnings. Although the Department of Finance uses recent data and statistics in the calculation, a variation may occur in the factors used to estimate the pensionable earnings. For example, a variation of one percentage point in the number of contributors or in the average pensionable earnings for 1997, would result, in each case, in a change of $142 million in estimated contributions.

Revenue Canada transfers contributions to CPP based on the Department of Finance's estimate of contributions to be collected for a calendar year as well as its own contribution collection schedule for the year. Actual pensionable earning and contribution amounts for 1997 and 1998 will only be known once Revenue Canada has processed all employers' and self-employed workers' declarations of contributions for 1997 and 1998.

Adjustments, if any, are recorded in the year in which the funds are received or reimbursed. The reimbursements for 1996 and preceding years, paid in 1998 amounted to $145 million (reimbursement of $304 million in 1997).

4. Interest

(in millions of dollars)

	1998	1997
Interest on investment in long term securities		
Provinces and Yukon Territory	3,431	3,572
Canada	354	355
	3,785	3,927
Interest on short term investments (3 month term) with Canada	7	13
Interest on deposit with the Receiver General for Canada, at a weighted-average rate of 3.53% (3.85% in 1997).	158	178
	3,950	4,118

5. Pension and benefit mispayments

Given the nature of the Plan and the number of applicants and beneficiaries, from time to time overpayments and underpayments of pension and benefit payouts may be made. Such "mispayments" occur more frequently for disability benefits. There is greater subjectivity in the adjudication of these applications and, once accepted, beneficiaries must continue to meet the eligibility criteria.

Management of the Canada Pension Plan periodically undertakes a study of the extent and nature of pension and benefit mispayments. The current study, which is based on the 1996 payment year, includes new procedures to improve the assessment of medical information for determining the continuing eligibility of beneficiaries to receive disability benefits. Through statistical extrapolation, the study estimates the most likely value of undetected mispayments at $40 million. This includes underpayments of $16 million and overpayments of $24 million. Disability mispayments, based on a review of 86.4% of the accounts selected as the study

sample, have a most likely value of $23 million, which includes underpayments of $8 million and overpayments of $15 million.

The previous year's study, which was based on the 1995 payment year, has now been revised to include the application of the new procedures. The revised estimate of the most likely value of undetected mispayments is $47 million (compared to $38 million estimated originally) of which underpayments represents $13 million ($12 million originally) and overpayments $34 million ($26 million originally).

Management has taken several initiatives to improve the administration of the Plan. Treasury Board has approved $268 million for the years 1997 to 2001 and subsequent years for the implementation of key initiatives which include, for example:

- implementation of a quality assurance program;
- significant increases in the number of reassessments, verifying the continuing eligibility of beneficiaries; and,
- introduction of new procedures used by the annual study on the extent and nature of pension and benefit mispayments.

6. Administration costs

(in millions of dollars)

	1998	1997
Pension and benefit delivery and corporate services (Human Resources Development Canada)	189	143
Collection of contributions (Revenue Canada)	75	70
Cheque issue and computer services (Public Works and Government Services Canada)	17	15
Accommodation (Public Works and Government Services Canada)	15	13
Actuarial services (Office of the Superintendent of Financial Institutions)	1	1
Investment Services (Department of Finance)	1	-
	298	242

Administration costs of the Account represent the cost of services received from a number of federal government departments and an agency. Those costs are charged to the Account in accordance with memoranda of understanding.

The costs for pension and benefit delivery charged to CPP by Human Resource Development Canada include $43.4 million ($23.0 million in 1997) for the Income Security Programs Redesign Project (the Project). At March 31, 1998 the cumulative charges to CPP for this project amount to $142.7 million. In 1997, an independent assessment of the Project implementation strategy was carried out. The assessment examined a series of risk mitigation options for consideration by management of the departments involved in the Project, i.e. Human Resources Development Canada, Public Works Government Services Canada and Treasury Board Secretariat. It was concluded that the Project's functionality, architecture and implementation strategy were valid as developed, but due to a number of significant changes to the business environment over the six year life of the Project, and the challenges presented by the upcoming Year 2000, successful implementation as scheduled would be unlikely.

In light of the benefits already provided by the Project and the significant level of risk, effort and cost associated with pursuing the full implementation of a client service delivery network, and the recommendations of the independent assessment, it was decided to conclude the Project and to redirect the implementation strategy.

7. Investment in securities

The amounts invested in securities constitute the Canada Pension Plan Investment Fund. Investments in provincial, territorial and federal government securities are made with the cash on hand in excess of the three-month operating requirement. As required by the Act, the amount made available to each province is proportional to the total contributions made by residents of each province and territories during the previous 10-year period. Funds not borrowed by the provinces and territories are invested in federal securities. The securities of Quebec relate to the contributions of certain federal employees residing in Quebec.

All securities are non-negotiable and have a 20-year term or less as fixed by the Minister of Finance on the recommendation of the Chief Actuary of the Office of the Superintendent of Financial Institutions. The interest rate on the securities is determined by the Minister of Finance based on the average yield to maturity of all outstanding Government of Canada obligations with terms of 20 years or more. All disposals of securities are made, at maturity date, at face value. Interest earned on the investments is credited semi-annually to the Account. Funds derived from the disposal of securities in 1998 were added to the operating balance. In 1998, there were no funds available for long-term investment in provincial and territorial securities.

At March 31, 1998, the balance in the Investment Fund was $32.5 billion. The following schedule presents the classification of securities by maturity dates and the weighted average annual rate of return on securities currently held. Due to the redemption terms described above, the carrying value of these investments approximate fair value at year end.

(in millions of dollars)

	March 31, 1998		March 31, 1997	
Investment maturing	Investment	Average yield	Investment	Average yield
Long term investments :				
Within 1 year	1,645	9.53%	1,582	9.08%
1 - 5 years	8,674	13.48%	7,935	12.27%
Over 5 years	22,140	10.66%	24,524	11.06%
Total - Long term investments	32,459		34,041	
Weighted average yield on long term investments		11.36%		11.25%

8. Contingencies

At March 31, 1998, there were 21,980 (26,131 in 1997) appeals relating to the payment of CPP pensions and benefits. Claims for these appeals could reach a maximum of $55 million ($31 million in 1997).

A number of persons who have not applied for a disability benefit, but who are potentially eligible, are being assisted by their respective provinces to secure their entitlement. Estimated unpaid retroactive entitlements related to these potential claims at March 31, 1998 amount to $11 million ($22 million in 1997).

Any claims resulting from the resolution of these appeals or from retroactive entitlements will be accounted for as an expenditure of the period in which the claim is paid.

9. Subsequent event

The legislation covering the new Canada Pension Plan Investment Board came into force on April 1, 1998. The purpose of this Board is to improve the rate of return on the CPP fund by investing it prudently in a diversified portfolio of securities. The Board is designed to operate at arm's length from the government and it is required to be accountable to both the public and governments through regular reports.

10. Uncertainty due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date.

The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect CPP's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 Issue affecting CPP, including those related to the efforts of a number of federal government departments and an agency providing services to CPP, or other third parties, will be fully resolved.